

Report on the
**Single Audit of Federal Financial Assistance
Programs Performed in Accordance With
the Single Audit Act Amendments of 1996
(Public Law 104-156) and U. S. Office of
Management and Budget Circular A-133
State of Alabama**

October 1, 2006 through September 30, 2007

Filed: July 11, 2008



**Department of
Examiners of Public Accounts**

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Ronald L. Jones, Chief Examiner

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Ronald L. Jones
Chief Examiner

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Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, I submit this report on the Single Audit of the State of Alabama for the period October 1, 2006 through September 30, 2007.

Audit of General Purpose Financial Statements

The audit of the State of Alabama General Purpose Financial Statements for the fiscal year ended September 30, 2007, was issued by the Department of Examiners of Public Accounts as Report Number 08-352 on April 25, 2008. The audited Basic Financial Statements were included in the State of Alabama *Comprehensive Annual Financial Report* prepared and published by the Department of Finance. Included with the *Comprehensive Annual Financial Report* are the Independent Auditor's Report and a Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*, both of which are required by *Government Auditing Standards* for financial audits. The Report to the Chief Examiner, required by the *Code of Alabama 1975*, Section 41-5-21, includes findings and recommendations resulting from the audit of the Basic Financial Statements, which have also been included on the Schedule of Findings and Questioned Costs contained in this report.

Single Audit - Scope and Objective

The Single Audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget (OMB) Circular A-133. The objective of the Single Audit was to determine whether the State of Alabama has complied with applicable laws and regulations of federal financial assistance programs and the State of Alabama. The audit was performed in accordance with generally accepted auditing standards and ***Government Auditing Standards***, issued by the Comptroller General of the United States.

This report is a statewide Single Audit report that includes federal financial assistance programs administered by state agencies. The Federal programs and administering agencies (component units of the State of Alabama) listed in the table below are not included in the Schedule of Expenditures of Federal Awards and were not included in our audit. These programs were audited in accordance with OMB Circular A-133 by other auditors.

Administering Agency	Federal Program	CFDA Number	Federal Expenditures
Housing Finance Authority	Home Investment Partnerships Program	14.239	\$27,458,940
Water Pollution Control Authority	Capitalization Grants for State Revolving Funds	66.458	\$16,535,456
Drinking Water Finance Authority	Capitalization Grants for Drinking Water - State Revolving Funds	66.468	\$ 6,782,713
Educational Television Commission/Alabama Public Television Foundation	E Learning for Educators	84.286A	\$ 4,030,931
	Public Telecommunications Facilities Program	11.550	\$ 3,369
State Employees' Insurance Board	Grants To States For Operation of Qualified High-Risk Pools	93.780	\$ 2,825,618
The Alabama Space Science Exhibit Commission	National Aeronautics and Space Administration	N/A	\$ 2,727,861
	Federal Transit Authority Intermodal Center	20.500	\$ 5,761,145
	USSRC Building Bridges From Formal to Informal Education	23.011	\$ 97,461

We have also excluded federal financial assistance programs administered by state-supported colleges and universities, which are a part of the financial reporting entity of the State of Alabama and included on the Basic Financial Statements. The Single Audits of the state-supported colleges and universities are performed and issued separately for each institution.

Other Comments

In addition to this Report to the Chief Examiner, this report includes the following Single Audit schedules and reports required by OMB Circular A-133:

- Schedule of Expenditures of Federal Awards;
- Notes to the Schedule of Expenditures of Federal Awards;
- Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With ***Government Auditing Standards***;
- Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133;
- Schedule of Findings and Questioned Costs;
- Summary Schedule of Prior Audit Findings; and
- Auditee Responses/Corrective Action Plans.

The State of Alabama expended \$6,858,109,791 in federal financial assistance during the 2006-2007 fiscal year. All federal financial assistance received and expended by state agencies is shown on the Schedule of Expenditures of Federal Awards. The federal programs are listed by federal grantor agency. The state agencies administering the programs are shown in a separate column.

All Single Audit findings related to noncompliance, questioned costs, significant deficiencies in internal controls, and recommendations are detailed on the Schedules of Findings and Questioned Costs.

Sworn to and subscribed before me this
the 30th day of June, 2008

Sandra E Shirley
Notary Public

Respectfully submitted,

Gail Traylor

Gail Traylor, CPA
Examiner of Public Accounts

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Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>DEPARTMENT OF AGRICULTURE</u>		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 1,594,295
Wildlife Services	10.028	50,000
Conservation Reserve Program	10.069	163,860
Market News	10.153	1,620
Inspection Grading and Standardization	10.162	17,664
Grants for Agricultural Research, Special Research Grants	10.200	
State Mediation Grants	10.435	159,484
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	1,480,506
Food Donation Program (M)	10.550	20,926,382
<u>Food Stamp Cluster</u>		
Food Stamps	10.551	600,787,071
State Administrative Matching Grants for Food Stamp Program	10.561	35,907,427
Total Food Stamp Cluster (M)		<u>636,694,498</u>
<u>Child Nutrition Cluster</u>		
School Breakfast Program	10.553	42,651,863
National School Lunch Program	10.555	149,582,233
Special Milk Program for Children	10.556	43,666
Summer Food Service Program for Children	10.559	3,526,600
Total Child Nutrition Cluster		<u>195,804,362</u>
Special Supplemental Nutrition Program for Women, Infants, and Children (M)	10.557	129,537,631
Child and Adult Care Food Program (M)	10.558	36,073,575
State Administrative Expenses for Child Nutrition	10.560	3,148,077
<u>Emergency Food Cluster</u>		
Emergency Food Assistance Program - Administrative Costs	10.568	808,833
Emergency Food Assistance Program - Food Commodities	10.569	3,332,379
Total Emergency Food Cluster		<u>\$ 4,141,212</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 1,351,844		\$	Agriculture and Industries/ Conservation and Natural Resources
48,696			Conservation and Natural Resources
164,829			Conservation and Natural Resources
1,620			Agriculture and Industries
17,664			Agriculture and Industries
10,555			Conservation and Natural Resources
159,484			Agriculture and Industries
1,465,742			Agriculture and Industries
20,926,382	3A	20,926,382	Education
600,787,071			Human Resources
31,852,420			Human Resources
<u>632,639,491</u>			
42,647,722		42,324,462	Education
149,589,261		149,105,109	Education
43,666		43,666	Education
3,525,515	3A	3,365,997	Education
<u>195,806,164</u>		<u>194,839,234</u>	
128,686,779	3B	4,651,344	Public Health
36,009,753		35,679,507	Education
3,148,081			Education
808,833		799,851	Education
3,332,379		3,332,379	Education
<u>\$ 4,141,212</u>		<u>\$ 4,132,230</u>	

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
WIC Farmers' Market Nutrition Program	10.572	\$ 412,930
Seniors Farmers Market Nutrition Program	10.576	881,545
Forestry Research	10.652	535,000
Cooperative Forestry Assistance	10.664	5,535,809
Schools and Roads - Grants to States	10.665	3,228,846
Rural Development, Forestry, and Communities	10.672	45,000
Soil Survey	10.903	
<u>Other Federal Assistance</u>		
Other Cooperative Agreements	10.Unknown	569,538
Total Department of Agriculture		<u>1,041,001,834</u>
<u>DEPARTMENT OF COMMERCE</u>		
Economic Development - Support for Planning Organizations	11.302	326,000
Economic Adjustment Assistance	11.307	40,000
Interjurisdictional Fisheries Act of 1986	11.407	1,008
Coastal Zone Management Administration Awards	11.419	5,799,196
Coastal Zone Management Estuarine Research Reserves	11.420	529,288
Cooperative Fishery Statistics	11.434	50,365
Southeast Area Monitoring and Assessment Program	11.435	74,681
Unallied Industry Projects	11.452	134,037
Unallied Management Projects - Oyster Reef Recovery	11.454	4,574,474
Congressionally Identified Awards and Projects	11.469	364
<u>Other Federal Assistance</u>		
Joint Enforcement Agreement (Advancement)	11.Unknown	750,000
Gulf of Mexico Fishery Management Council Liaison	11.Unknown	35,000
Gulf States Marine Fisheries Commission	11.Unknown	385,469
Department of Commerce - NOAA NA05NOS4001068	11.Unknown	721,437
Department of Commerce - NOAA NA06NOS4000002	11.Unknown	756,137
MRSFF	11.Unknown	
Total Department of Commerce		<u>\$ 14,177,456</u>
(M) - Denotes Major Programs		

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 416,247		\$	Farmer's Market Authority/Public Health
877,456			Farmer's Market Authority
535,000			Forestry Commission
5,535,809		1,686,122	Forestry Commission
3,266,231		2,393,287	Department of Finance/Forestry Commission
45,000			Forestry Commission
5,303			Geological Survey
1,099,558			Agriculture and Industries
<u>1,036,358,900</u>		<u>264,308,106</u>	
290,678		100,000	Economic and Community Affairs
390,000			Economic and Community Affairs
37,009			Conservation and Natural Resources
1,912,662		458,752	Conservation and Natural Resources
599,766			Conservation and Natural Resources
42,561			Conservation and Natural Resources
79,246			Conservation and Natural Resources
134,037		89,378	Economic and Community Affairs
4,501,166		1,403,459	Conservation and Natural Resources
364			Conservation and Natural Resources
1,008,707			Conservation and Natural Resources
34,547			Conservation and Natural Resources
251,378			Conservation and Natural Resources
737,543			Revenue
756,137			Revenue
160,251			Conservation and Natural Resources
<u>\$ 10,936,052</u>		<u>\$ 2,051,589</u>	

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007***

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>DEPARTMENT OF DEFENSE</u>		
Aquatic Plant Control	12.100	\$ 36,362
Navigation Projects	12.107	281,776
National Guard Military Operations and Maintenance (O&M) Projects	12.401	40,898,216
<u>Other Federal Assistance</u>		
Troops to Teachers	12.Unknown	130,000
Bob Cat Cave Monitoring (USA Aviation and Missile Command)	12.Unknown	61,610
Redstone Arsenal	12.Unknown	19,616
Dauphin Island	12.Unknown	
Total Department of Defense		<u>41,427,580</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
Manufactured Home Construction and Safety Standards	14.171	224,382
Community Development Block Grants/State's Program (M)	14.228	47,269,492
Emergency Shelter Grants Program	14.231	1,522,951
Shelter Plus Care	14.238	187,215
Housing Opportunities for Persons with AIDS	14.241	1,295,976
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	67,874
Total Department of Housing and Urban Development		<u>50,567,890</u>
<u>DEPARTMENT OF INTERIOR</u>		
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	1,079,798
Abandoned Mine Land Reclamation (AMLR) Program (M)	15.252	5,848,820
Marine Minerals Activities	15.424	
<u>Fish and Wildlife Cluster</u>		
Sport Fish Restoration	15.605	4,903,806
Wildlife Restoration	15.611	5,871,389
Total Fish and Wildlife Cluster		<u>\$ 10,775,195</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 26,802		\$	Conservation and Natural Resources
325,407			Conservation and Natural Resources
40,898,216	A		Military Department
183,880			Education
79,735			Geological Survey
4,344			Geological Survey
23,392			Geological Survey
<u>41,541,776</u>			
224,382			Manufactured Housing Commission
47,303,467	A	45,786,256	Economic and Community Affairs
1,523,618		1,485,671	Economic and Community Affairs
176,019		176,019	Mental Health and Mental Retardation
1,300,066		1,250,606	Economic and Community Affairs
96,908			Historical Commission
<u>50,624,460</u>		<u>48,698,552</u>	
2,184,255			Surface Mining Commission
5,709,824			Industrial Relations
556			Geological Survey
5,386,345		402,827	Conservation and Natural Resources
12,641,096		11,250	Conservation and Natural Resources
<u>\$ 18,027,441</u>		<u>\$ 414,077</u>	

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
Fish and Wildlife Management Assistance	15.608	\$
Endangered Species Conservation	15.612	319,901
Coastal Wetlands Planning, Protection and Restoration Act	15.614	70,641
Clean Vessel Act	15.616	191,166
Wildlife Conservation and Restoration	15.625	50,941
Conservation Grants Private Stewardship for Imperiled Species	15.632	796,710
Landowner Incentive	15.633	118,450
State Wildlife Grants	15.634	1,436,460
U. S. Geological Survey - Research and Data Collection	15.808	13,515
National Cooperative Geologic Mapping Program	15.810	104,014
Historic Preservation Fund Grants-In-Aid	15.904	878,839
Outdoor Recreation - Acquisition, Development and Planning	15.916	1,188,776
American Battlefield Protection	15.926	
Save America's Treasures	15.929	242,311
<u>Other Federal Assistance</u>		
MMS Petroleum Systems (MMS)	15.Unknown	44,858
Mobile-Tensaw River (FWS)	15.Unknown	20,335
Cooperative Agreement	15.Unknown	3,750
Unground Mine Map (OSM)	15.Unknown	12,658
Total Department of Interior		<u>23,197,138</u>
<u>DEPARTMENT OF JUSTICE</u>		
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	1,054,123
Juvenile Accountability Incentive Block Grants	16.523	668,101
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	864,379
Title V - Delinquency Prevention Program	16.548	\$ 104,377

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 22,758		\$	Conservation and Natural Resources
273,264		197,038	Conservation and Natural Resources
			Conservation and Natural Resources/Forever Wild Trust Fund
260,580			Environmental Management
49,302		36,931	Conservation and Natural Resources
37,530			Conservation and Natural Resources/Geological Survey
117,129		53,371	Conservation and Natural Resources
1,280,932		662,179	Conservation and Natural Resources
15,000			Geological Survey
108,078			Geological Survey
927,281		166,257	Historical Commission
1,041,348		1,041,348	Economic and Community Affairs
798			Historical Commission
250,720			Historical Commission
50,000			Geological Survey
15,498			Geological Survey
3,750			Conservation and Natural Resources
17,500			Geological Survey
<u>30,393,544</u>		<u>2,571,201</u>	
1,057,543		1,024,857	Economic and Community Affairs/Youth Services
768,374		172,663	Economic and Community Affairs
865,235		771,500	Economic and Community Affairs
\$ 104,310		\$ 97,796	Economic and Community Affairs

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
State Justice Statistics Program for Statistical Analysis Centers	16.550	\$ 21,501
National Criminal History Improvement Program (NCHIP)	16.554	711,625
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2,468,624
Crime Victims Assistance	16.575	5,774,440
Crime Victims Compensation	16.576	354,862
Edward Byrne Memorial Formula Grant Program	16.579	355,034
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	964,557
Crime Victim Assistance/Discretionary Grants	16.582	409,959
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	3,796,568
Violence Against Women Formula Grants	16.588	1,893,377
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	570,662
Local Law Enforcement Block Grant Program	16.592	(109)
Residential Substance Abuse Treatment for State Prisoners	16.593	930,689
State Criminal Alien Assistance Program	16.606	60,174
Bulletproof Vest Partnership Program	16.607	24,263
Community Prosecution and Project Safe Neighborhoods	16.609	172,545
Public Safety Partnership and Community Policing Grants	16.710	30,708
Enforcing Underage Drinking Laws Program	16.727	336,626
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735	83,835
Edward Byrne Memorial Justice Assistance Grant Program	16.738	5,092,704
Statewide Automated Victim Information Notification (SAVIN) Program	16.740	\$

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 48,814		\$	Criminal Justice Information
629,976			Criminal Justice Information
2,528,631			Economic and Community Affairs/ Forensic Science
5,774,603		5,423,143	Economic and Community Affairs
354,862			Crime Victims Compensation
353,691		261,349	Economic and Community Affairs
966,162		387,273	Public Health/ Criminal Justice Information
454,385		373,421	Attorney General's Office
3,796,409			Economic and Community Affairs
1,894,493		1,813,188	Economic and Community Affairs
570,662		570,662	Economic and Community Affairs
934,940			Economic and Community Affairs
			Economic and Community Affairs
			Corrections
19,184			Economic and Community Affairs
157,780			Attorney General's Office
30,708			Economic and Community Affairs
336,610		199,168	Economic and Community Affairs
83,835			Economic and Community Affairs
5,519,215		4,807,407	Economic and Community Affairs
\$ 47,633		\$ 47,633	Criminal Justice Information

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>Other Federal Assistance</u>		
Drug Enforcement Administration	16.Unknown	\$ 2,402,559
Alcohol, Tobacco and Firearms	16.Unknown	2,093
Community Oriented Policing Services	16.Unknown	6,043,603
Office of Justice Programs	16.Unknown	463,823
Office of National Drug Control Policy	16.Unknown	283,557
National Office for Missing and Exploited Children	16.Unknown	40,790
Total Department of Justice		<u>35,980,049</u>
<u>DEPARTMENT OF LABOR</u>		
Labor Force Statistics	17.002	1,264,856
Compensation and Working Conditions	17.005	98,200
<u>Employment Service Cluster</u>		
Employment Service/Wagner-Peyser Funded Activities	17.207	10,630,281
Disabled Veterans' Outreach Program (DVOP)	17.801	1,037,113
Local Veterans' Employment Representative Program	17.804	1,405,469
Total Employment Service Cluster (M)		<u>13,072,863</u>
Job Corps Program	17.208	174,297
Unemployment Insurance (M)	17.225	272,906,351
Senior Community Service Employment Program	17.235	1,632,466
Trade Adjustment Assistance (M)	17.245	12,325,593
Employment Services and Job Training Pilots-Demonstrations and Research	17.249	(15,236)
<u>Workforce Investment Act Cluster</u>		
Workforce Investment Act Adult Program	17.258	13,180,332
Workforce Investment Act Youth Activities	17.259	12,754,859
Workforce Investment Act Dislocated Workers	17.260	16,266,131
Total Workforce Investment Act Cluster (M)		42,201,322
Workforce Investment Act Pilots, Demonstrations, and Research Projects	17.261	4,148,299
Work Incentive Grants	17.266	102,215
Incentive Grants - WIA Section 503	17.267	301,962
Consultation Agreements	17.504	50,370
Disability Employment Policy Development	17.720	226,348
Total Department of Labor		<u>\$ 348,489,906</u>

(M) - Denotes Major Programs

Single Audit of Federal
Financial Assistance Programs
State of Alabama

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 1,611,324		\$	Public Safety
6,047,575			Public Safety
880,464			Public Safety
344,290			Public Safety
206,350			Public Safety
<u>36,388,058</u>		<u>15,950,060</u>	
1,223,884			Industrial Relations
98,200			Labor
10,355,107		(1,838)	Economic and Community Affairs/Industrial Relations
1,067,663			Industrial Relations
1,389,012			Industrial Relations
<u>12,811,782</u>		<u>(1,838)</u>	
(6,685)			Industrial Relations
276,826,173	A		Industrial Relations
1,629,836		1,574,872	Senior Services
12,040,449			Industrial Relations
(15,236)		(15,236)	Economic and Community Affairs
13,254,730		11,807,143	Economic and Community Affairs
13,148,581		10,789,024	Economic and Community Affairs
16,822,589		13,400,303	Economic and Community Affairs
43,225,900	A	35,996,470	
4,112,436		3,436,494	Economic and Community Affairs
96,214		84,677	Economic and Community Affairs
613,509			Economic and Community Affairs
50,370			Labor
224,280		125,648	Economic and Community Affairs
<u>\$ 352,931,112</u>		<u>\$ 41,201,087</u>	

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007***

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>DEPARTMENT OF TRANSPORTATION</u>		
<u>Highway Planning and Construction Cluster</u>		
Highway Planning and Construction	20.205	\$ 671,342,106
Appalachian Development Highway System	23.003	35,247,164
Total Highway Planning and Construction Cluster (M)		<u>706,589,270</u>
National Motor Carrier Safety	20.218	5,317,744
Recreational Trails Program	20.219	2,378,479
<u>Federal Transit Cluster</u>		
Federal Transit - Capital Investments Grants	20.500	2,036,972
Federal Transit - Formula Grants	20.507	1,703,765
Total Federal Transit Cluster (M)		<u>3,740,737</u>
Federal Transit - Metropolitan Planning Grants	20.505	125,418
Formula Grants for Other Than Urbanized Areas	20.509	8,207,462
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5,635,901
<u>Highway Safety Cluster</u>		
State and Community Highway Safety	20.600	4,101,315
Occupant Protection	20.602	304,723
Federal Highway Safety Data Improvement Incentive Grants	20.603	
Safety Incentives Grants for Use of Seatbelts	20.604	70,660
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	
Total Highway Safety Cluster		<u>4,476,698</u>
Safety Belt Performance Grants	20.609	913,166
Pipeline Safety	20.700	300,228
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	218,560
<u>Other Federal Assistance</u>		
Performance and Registration Information System Management Program PZAL031	20.Unknown	13,447
Federal Motor Carrier Safety Administration IT06101G00000	20.Unknown	228,713
Total Department of Transportation		<u>\$ 738,145,823</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 671,083,614		\$ 2,340,257	Transportation
35,247,164			Transportation
<u>706,330,778</u>	A	<u>2,340,257</u>	
5,935,608			Public Safety
2,356,417		2,279,104	Economic and Community Affairs
2,036,972		2,036,972	Transportation
1,703,765		1,703,765	Transportation
<u>3,740,737</u>		<u>3,740,737</u>	
125,418		125,418	Transportation
8,207,462		7,349,626	Transportation
5,635,901		5,635,901	Transportation
4,077,700		3,023,058	Economic and Community Affairs/Public Safety
304,723		133,748	Economic and Community Affairs
70,553			Economic and Community Affairs
<u>4,452,976</u>		<u>3,156,806</u>	
913,166		181,586	Economic and Community Affairs
300,228			Public Service Commission
133,108		102,333	Emergency Management Agency
13,447			Revenue
438,956			Revenue
<u>\$ 738,584,202</u>		<u>\$ 24,911,768</u>	

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>APPALACHIAN REGIONAL COMMISSION</u>		
Appalachian Regional Development - Distance Learning	23.001	\$ 871,410
Appalachian Area Development	23.002	488,868
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	121,190
Total Appalachian Regional Commission		<u>1,481,468</u>
<u>GENERAL SERVICES ADMINISTRATION</u>		
Donation of Federal Surplus Personal Property	39.003	5,789,316
Help America Vote Act 2002 (Title I)	39.011	78,735
Total General Services Administration		<u>5,868,051</u>
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u>		
<u>Other Federal Assistance</u>		
NASA Research Grant	43.Unknown	182,838
Total National Aeronautics and Space Administration		<u>182,838</u>
<u>NATIONAL ENDOWMENT THE ARTS</u>		
Promotion of the Arts - Partnership Agreements	45.025	646,100
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>		
Grants to States	45.310	2,610,549
National Leadership Grants	45.312	47,360
Total National Foundation on the Arts and the Humanities		<u>2,657,909</u>
<u>TENNESSEE VALLEY AUTHORITY</u>		
<u>Other Federal Assistance</u>		
Biological Assessment	62.Unknown	29,247
Other Federal Assistance-TVA	62.Unknown	657,000
Tennessee Valley Authority-Contract TV-62313A	62.Unknown	117,000
Total Tennessee Valley Authority		<u>803,247</u>
<u>DEPARTMENT OF VETERANS AFFAIRS</u>		
Veterans State Nursing Home Care (M)	64.015	10,810,607
SAA Contract Number V101(223C)P-4600	64.Unknown	271,410
Total Veterans Affairs		<u>\$ 11,082,017</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 364,888		\$ 226,745	Education
488,868		365,625	Economic and Community Affairs/Transportation
130,526			Economic and Community Affairs
<u>984,282</u>		<u>592,370</u>	
6,274,405		6,106,482	Economic and Community Affairs
324,590			Secretary of State
<u>6,598,995</u>		<u>6,106,482</u>	
197,903		197,903	Education
<u>197,903</u>		<u>197,903</u>	
610,777		610,777	Council on the Arts
1,488,238		1,122,311	Public Library Service
47,360			Commission on Higher Education
<u>1,535,598</u>		<u>1,122,311</u>	
52,026			Geological Survey
733,029		466,522	Emergency Management Agency
37,054			Public Health
<u>822,109</u>		<u>466,522</u>	
10,810,607			Veterans' Affairs
241,030			Postsecondary Education
<u>\$ 11,051,637</u>		<u>\$</u>	

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>ENVIRONMENTAL PROTECTION AGENCY</u>		
Air Pollution Control Program Support	66.001	\$ 1,209,062
State Indoor Radon Grants	66.032	373,587
State Underground Water Source Protection	66.433	11,922
Water Quality Management Planning	66.454	62,789
Nonpoint Source Implementation Grants	66.460	3,913,415
Regional Wetland Program Development Grant	66.461	95,295
Wastewater Operator Training Program (Technical Assistance)	66.467	798,276
Beach Monitoring and Notification Program Implementation Grants	66.472	483,316
Water Protection Grants to the States	66.474	418,679
Gulf of Mexico Program	66.475	102,863
Performance Partnership Grants	66.605	4,397,498
Training and Fellowships for the Environmental Protection Agency	66.607	140,926
Protection of Children and Older Adults (Elderly) from Environmental Health Risks	66.609	7,578
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	135,569
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	424,889
Pollution Prevention Grants Program	66.708	71,442
Superfund State, Political Subdivisions, and Indian Tribe Site - Specific Cooperative Agreements	66.802	275,036
State and Tribal Underground Storage Tanks Program	66.804	45,704
Leaking Underground Storage Tank Trust Fund Program	66.805	1,238,145
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	525,603
Brownsfields Assessment and Cleanup Cooperative Agreements	66.818	1,222,628
Total Environmental Protection Agency		<u>15,954,222</u>
<u>DEPARTMENT OF ENERGY</u>		
State Energy Program	81.041	752,775
Weatherization Assistance for Low-Income Persons	81.042	2,585,009
Regional Biomass Energy Programs	81.079	34,292
Conservation Research and Development	81.086	\$

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 629,434		\$	Environmental Management
300,056			Public Health
172,664			Environmental Management
3,336,472		1,807,592	Environmental Management
95,295			Environmental Management
788,921			Environmental Management
420,030			Environmental Management
293,337			Environmental Management
123,264			Environmental Management
9,647,886			Agriculture and Industries/Environment Management
123,750			Attorney General's Office
7,827			Environmental Management
119,090			Environmental Management
400,817			Public Health
68,957			Environmental Management
574,390			Environmental Management
50,640			Environmental Management
1,307,317			Environmental Management
504,564			Environmental Management
1,238,599			Environmental Management
<u>20,203,310</u>		<u>1,807,592</u>	
752,775		295,101	Economic and Community Affairs
2,514,280		2,284,577	Economic and Community Affairs
34,268		29,178	Economic and Community Affairs
\$ 4,100		\$ 4,100	Economic and Community Affairs

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	81.106	\$ 93,398
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	54,884
State Energy Program Special Projects	81.119	119,113
<u>Other Federal Assistance</u>		
Citronelle	81.Unknown	17,327
Crude Oil Refund	81.Unknown	4,519
Exxon	81.Unknown	38,190
Second Stage	81.Unknown	14,183
Strip Oil	81.Unknown	76,099
Texaco	81.Unknown	187,439
DOE Fracture Modeling	81.Unknown	89,840
Secarb Phase II	81.Unknown	162,053
Total Department of Energy		<u>4,229,121</u>
<u>DEPARTMENT OF EDUCATION</u>		
Adult Education - State Grant Program	84.002	8,591,040
Title I Grants to Local Educational Agencies (M)	84.010	192,528,778
Migrant Education - State Grant Program	84.011	2,465,928
Title I Program for Neglected and Delinquent Children	84.013	855,238
<u>Special Education Cluster</u>		
Special Education - Grants to States	84.027	171,294,459
Special Education - Preschool Grants	84.173	<u>5,488,342</u>
Total Special Education Cluster		<u>176,782,801</u>
Federal Family Education Loans	84.032	91,763
Vocational Education - Basic Grants to States	84.048	19,561,297
Grants to States for State Student Incentives	84.069A	446,119
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	66,239,852
Rehabilitation Services - Client Assistance Program	84.161	136,675
Independent Living - State Grants	84.169	295,801
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	496,188
Special Education - Grants For Infants and Families With Disabilities	84.181	\$ 6,383,947

(M) - Denotes Major Programs

Single Audit of Federal
Financial Assistance Programs
State of Alabama

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 89,158		\$	Emergency Management Agency
47,081		28,271	Economic and Community Affairs
119,113		116,510	Economic and Community Affairs
			Economic and Community Affairs
			Economic and Community Affairs
3,941		3,941	Economic and Community Affairs
			Economic and Community Affairs
149,886		146,126	Economic and Community Affairs
90,647		57,955	Economic and Community Affairs
87,720		20,950	Geological Survey
181,007		20,211	Geological Survey
<u>4,073,976</u>		<u>3,006,920</u>	
7,895,733		7,191,517	Post Secondary Education
192,660,192		189,940,419	Education
2,393,366		1,931,695	Education
855,238		504,391	Education
171,294,328		163,791,353	Education
5,488,472		5,303,024	Education
<u>176,782,800</u>		<u>169,094,377</u>	
			Higher Education Loan Corporation
19,548,965		16,635,893	Education
446,119			Commission on Higher Education
65,862,184	3F		Rehabilitation Services
136,821			Rehabilitation Services
295,801			Rehabilitation Services
497,076			Rehabilitation Services
\$ 6,382,355		\$ 467,925	Rehabilitation Services

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
Safe and Drug-Free Schools and Communities - National Programs	84.184	\$ 168,938
Project Serve	84.184	222,463
Byrd Honors Scholarships	84.185	637,500
Safe and Drug-Free Schools and Communities - State Grants	84.186	5,366,431
Supported Employment Services for Individuals With Severe Disabilities	84.187	149,616
Education for Homeless Children and Youth	84.196	1,011,032
Even Start - State Educational Agencies	84.213	1,518,907
Fund for the Improvement of Education	84.215	247,355
Assistive Technology	84.224A	337,426
Assistive Technology - Alternative Feeding	84.224C	65,004
Tech-Prep Education	84.243	1,926,925
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	90,120
Ready to Teach	84.286	53,209
Twenty-First Century Community Learning Centers	84.287	15,701,593
State Grants for Innovative Programs	84.298	1,745,888
Education Technology State Grants (M)	84.318	4,887,812
Special Education - State Personnel Development	84.323	893,131
Advanced Placement Program	84.330	38,581
Comprehensive School Reform Demonstration	84.332	251,844
Vocational Education-Occupational and Employment Information State Grants	84.346	77,792
Reading First State Grants	84.357	18,415,107
Rural Education	84.358	5,018,451
English Language Acquisition Grants	84.365	3,104,639
Mathematics and Science Partnership	84.366	3,031,401
Improving Teacher Quality State Grants (M)	84.367	44,945,767
Improving Teacher Quality State Grants	84.367B	1,178,914
Grants for State Assessments and Related Activities	84.369	6,570,392
Hurricane Education Recovery - Impact Aid	84.938	(153,386)
Total Department of Education		<u>\$ 592,378,279</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 168,938		\$	Education
222,463		222,463	Education
648,000		648,000	Education
5,415,606		5,064,486	Economic and Community Affairs/Education
149,616			Rehabilitation Services
1,011,032		954,981	Education
1,518,907		1,419,561	Education
230,932		166,597	Education
337,426			Rehabilitation Services
65,004			Rehabilitation Services
1,927,392		1,823,808	Education
90,795			Rehabilitation Services
82,646		82,646	Education
15,756,343		14,824,017	Education
1,766,601		1,632,713	Education
4,825,893		4,349,624	Education
893,131			Education
38,581		38,581	Education
251,844		31,946	Education
93,925			Education
18,415,080		17,658,098	Education
5,485,972		5,160,506	Education
3,103,491		2,951,848	Education
3,031,401		3,031,349	Education
44,887,857		44,184,707	Education
1,178,409			Commission on Higher Education
6,044,996			Education
(153,386)		(153,386)	Education
<u>\$ 591,245,545</u>		<u>\$ 489,858,762</u>	

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007***

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>ELECTIONS ASSISTANCE COMMISSION</u>		
Help America Vote Act 2002 Requirements Payments (Title II)	90.401	\$ 588,224
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	160,922
Special Programs for the Aging - Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	86,251
Special Programs for the Aging - Title VII, Chapter 2: Long-Term Care Ombudsman Services for Older Individuals	93.042	230,068
Special Programs for the Aging - Title III, Part D: Disease Prevention and Health Promotion Services	93.043	334,352
<u>Aging Cluster</u>		
Special Programs for the Aging - Title III, Part B: Grants for Supportive Services and Senior Centers	93.044	5,207,509
Special Programs for the Aging - Title III, Part C: Nutrition Services	93.045	8,810,419
Nutrition Services Incentive Program	93.053	2,631,929
Total Aging Cluster		<u>16,649,857</u>
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	93.048	393,327
Alzheimer's Disease Demonstration Grants to States	93.051	359,538
National Family Caregiver Support	93.052	2,299,277
Maternal and Child Health Federal Consolidated Programs	93.110	397,836
AIDS Comprehensive Care/Preventative Program-Hemophilia of Georgia	93.110B	28,700
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,096,000
Emergency Medical Services for Children	93.127	88,966
Primary Care Services Resource Coordination and Development	93.130	212,607
Injury Prevention and Control Research and State and Community Based Programs	93.136	709,818
Projects for Assistance in Transition from Homelessness (PATH)	93.150	\$ 408,550

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 5,658,205	31	\$	Secretary of State
159,817		35,000	Public Health
84,749		84,749	Senior Services
231,572		231,572	Senior Services
352,240		335,456	Senior Services
5,212,022		4,888,869	Senior Services
8,727,935		8,471,769	Senior Services
2,631,979		2,631,979	Senior Services
<u>16,571,936</u>		<u>15,992,617</u>	
422,412		326,414	Senior Services
386,142		381,362	Senior Services
2,390,634		2,272,338	Senior Services
390,810		46,055	Public Health
28,502			Rehabilitation Services
1,061,181		8,531	Public Health
88,375			Public Health
204,679			Public Health
706,520		561,298	Public Health
\$ 408,550		\$ 408,550	Mental Health and Mental Retardation

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007***

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	\$ 9,863
Family Planning - Services	93.217	5,117,264
Consolidated Knowledge Development and Application (KD&A) Program	93.230	
Traumatic Brain Injury State Demonstration Program	93.234	106,412
Abstinence Education Program	93.235	1,061,730
State Capacity Building	93.240	142,200
State Rural Hospital Flexibility Program	93.241	380,100
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	2,949,055
Universal Newborn Hearing Screening	93.251	136,038
State Planning Grants Health Care Access for the Uninsured	93.256	114,736
Rural Access to Emergency Devices Grant	93.259	72,870
Immunization Grants	93.268	49,284,215
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	26,108,360
Small Rural Hospital Improvement Grant Program	93.301	256,843
Cancer Control	93.399	565
Ruminant Feed Ban Support Project	93.449	45,500
Promoting Safe and Stable Families	93.556	9,943,260
Temporary Assistance for Needy Families (TANF) (M)	93.558	120,074,025
Child Support Enforcement	93.563	44,838,882
Low-Income Home Energy Assistance (M)	93.568	23,500,433
Community Services Block Grant	93.569	11,997,879
Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	93.571	32,895
<u>Child Care Development Cluster</u>		
Child Care and Development Block Grant	93.575	43,110,444
Child Care Mandatory and Matching Funds of Child Care and Development Fund	93.596	58,201,778
Total Child Care Development Cluster (M)		<u>\$ 101,312,222</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 18,351		\$	Public Health
5,119,078		1,244,904	Public Health
(476)			Mental Health and Mental Retardation
106,606			Rehabilitation Services
1,056,975		879,014	Public Health
142,295			Public Health
381,374		380,000	Public Health
2,371,849		2,349,254	Mental Health and Mental Retardation
133,540		7,500	Public Health
114,763			Public Health
71,351			Public Health
49,072,595	3G	34,490,734	Public Health
25,625,504		2,835,149	Emergency Management Agency/ Public Health
257,007		246,123	Public Health Public Health
31,250			Agriculture and Industries
8,213,801			Human Resources
95,822,623		5,362,527	Human Resources
37,169,588	3H		Human Resources
22,915,617		21,790,848	Economic and Community Affairs
11,915,351		11,375,510	Economic and Community Affairs
32,895		32,895	Economic and Community Affairs
49,418,330			Human Resources
49,638,446		4,720,917	Human Resources
<u>\$ 99,056,776</u>		<u>\$ 4,720,917</u>	

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
Empowerment Zones Program	93.585	\$ 309,863
State Court Improvement Program	93.586	268,886
Community-Based Child Abuse Prevention Grants	93.590	423,783
Grants to States for Access and Visitation Programs	93.597	254,344
Chafee Education and Training Vouchers Program (ETV)	93.599	646,413
Head Start	93.600	185,000
Child Support Enforcement Demonstrations and Special Projects	93.601	90,268
Adoption Incentive Payments	93.603	208,407
Mentoring Children of Prisoners	93.616	988,768
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,167,943
Developmental Disabilities Projects of National Significance	93.631	96,654
Children's Justice Grants to States	93.643	392,569
Child Welfare Services - State Grants	93.645	4,915,432
Foster Care - Title IV-E (M)	93.658	28,777,324
Adoption Assistance	93.659	8,872,627
Social Services Block Grant (M)	93.667	50,662,144
Child Abuse and Neglect State Grants	93.669	376,402
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	1,454,395
Chafee Foster Care Independence Program	93.674	1,640,436
State Children's Insurance Program (M)	93.767	97,393,049
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	\$ 355,446

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 309,863		\$ 309,863	Economic and Community Affairs
268,886			Administrative Office of Courts
423,783		344,875	Child Abuse and Neglect Prevention Board
254,344			Administrative Office of Courts
552,453			Human Resources
182,686			Children's Affairs
90,268		76,667	Child Abuse and Neglect Prevention Board
			Human Resources
923,196		764,898	Child Abuse and Neglect Prevention/Attorney General's Office
1,151,192		626,395	Mental Health and Mental Retardation
93,481		92,913	Mental Health and Mental Retardation
226,124			Human Resources
4,915,432			Human Resources
32,076,045			Human Resources
8,522,718			Human Resources
55,851,842		18,770,230	Human Resources
367,551			Human Resources
1,454,302		1,373,655	Economic and Community Affairs
1,481,994			Human Resources
97,302,330	A	42,274	Public Health
\$ 354,488		\$	Rehabilitation Services

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
<u>Medicaid Cluster</u>		
State Medicaid Fraud Control Units	93.775	\$ 645,690
Hurricane Katrina Relief	93.776	147,085,976
State Survey and Certification of Health Care Providers and Suppliers	93.777	6,606,850
Medical Assistance Program	93.778	2,965,690,050
Total Medicaid Cluster (M)		<u>3,120,028,566</u>
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations (M)	93.779	38,796,735
Together for Quality Transformation Grant	93.793	65,877
National Bioterrorism Hospital Preparedness Program (M)	93.889	5,182,628
Grants to States for Operation of Offices of Rural Health	93.913	167,082
HIV Care Formula Grants	93.917	10,751,647
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	
Demonstration Grants to States for Community Scholarships	93.931	12,335
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	324,878
HIV Prevention Activities - Health Department Based	93.940	2,445,748
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	947,638
Assistance Programs for Chronic Disease Prevention and Control	93.945	649,096
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	163,900
Trauma Care Systems Planning and Development	93.952	5,007
Block Grants for Community Mental Health Services (M)	93.958	6,186,474
Olmstead Grant	93.958S	20,000
Block Grants for Prevention and Treatment of Substance Abuse (M)	93.959	23,848,737
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	\$ 2,130,300

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 655,732		\$	Attorney General
147,106,148		33,330	Alabama Medicaid Agency/Public Health
5,972,583			Alabama Medicaid Agency/Public Health
2,930,122,603		13,098,146	Alabama Medicaid Agency
<u>3,083,857,066</u>	A	<u>13,098,146</u>	
38,761,000	A	723,276	Medicaid/Mental Health and Mental Retardation/ Public Health/Senior Services
65,877			Medicaid
5,069,363		1,157,984	Public Health
174,202			Public Health
9,969,746		2,140,156	Public Health
(1,271)			Public Health Public Health
324,380			Education
2,364,353		507,308	Public Health
909,252		71,318	Public Health
635,226		246,159	Public Health
158,301			Public Health
5,879			Public Health
6,224,161		5,399,989	Mental Health and Mental Retardation
12,124		12,124	Mental Health and Mental Retardation
23,785,854		22,758,980	Mental Health and Mental Retardation
\$ 2,065,880		\$ 274,850	Public Health

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
Mental Health Disaster Assistance and Emergency Mental Health	93.982	\$ 651,401
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	352,207
Preventive Health and Health Services Block Grant	93.991	1,416,699
Maternal and Child Health Services Block Grant to the States	93.994	10,462,297
<u>Other Federal Assistance</u>		
CLIA	93.Unknown	314,300
Mammography Quality Standards-HHS Contract 223-95-4400	93.Unknown	119,813
Food Inspections-Contract 223-96-4036	93.Unknown	127,864
OASIS	93.Unknown	48,500
Drug and Alcohol Services Information System	93.Unknown	160,426
FDA RAD HL	93.Unknown	
State Epidemiological Outcomes	93.Unknown	200,000
Total Department of Health and Human Services		<u>3,846,001,724</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>		
State Commissions	94.003	288,864
Learn and Serve America - School and Community Based Programs	94.004	277,119
AmeriCorps	94.006	1,259,970
Planning and Program Development Grants	94.007	118,101
Training and Technical Assistance	94.009	147,268
Volunteers in Service to America	94.013	10,932
Total Corporation for National and Community Service		<u>2,102,254</u>
<u>SOCIAL SECURITY ADMINISTRATION</u>		
Social Security - Disability Insurance (M)	96.001	38,367,357
Social Security - Work Incentives Planning and Assistance Program	96.008	
Total Social Security Administration		<u>38,367,357</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>		
<u>Homeland Security Cluster</u>		
State Domestic Preparedness Equipment Support Program	16.007	4,011,123
State Domestic Preparedness Equipment Support Program	97.004	5,817,626
Homeland Security Grant Program	97.067	13,815,823
Total Homeland Security Cluster		<u>\$ 23,644,572</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 651,401		\$ 651,270	Mental Health and Mental Retardation
357,190			Public Health
1,364,435		129,130	Public Health
10,392,253		1,369,233	Public Health
307,551			Public Health
94,176			Public Health
108,204			Public Health
48,480			Public Health
70,416			Mental Health and Mental Retardation
1,805			Public Health
14,221			Mental Health and Mental Retardation
<u>3,777,711,335</u>		<u>177,374,340</u>	
289,333		5,000	Governor's Office of Faith-Based and Community Initiatives
287,119		241,006	Education
1,259,719		1,259,719	Governor's Office of Faith-Based and Community Initiatives
77,903		7,500	Governor's Office of Faith-Based and Community Initiatives
152,170		15,000	Governor's Office of Faith-Based and Community Initiatives
12,250			Governor's Office of Faith-Based and Community Initiatives
<u>2,078,494</u>		<u>1,528,225</u>	
38,357,858	A		Education
21,586			Rehabilitation Services
<u>38,379,444</u>			
4,029,428		3,236,698	Homeland Security
5,588,094		392,558	Emergency Management Agency/
		2,088,282	Homeland Security
13,815,823		9,799,734	Homeland Security
<u>\$ 23,433,345</u>	A	<u>\$ 15,517,272</u>	

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007***

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Receipts
Boating Safety	97.011	\$ 2,025,008
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	127,504
Emergency Food and Shelter National Board Program	97.024	47,356
Flood Mitigation Assistance	97.029	33,255
Crisis Counseling	97.032	71,116
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (M)	97.036	27,179,566
Hazard Mitigation Grant	97.039	15,278,665
Chemical Stockpile Emergency Preparedness Program (CSEPP) (M)	97.040	26,238,235
Emergency Management Performance Grants	97.042	3,198,642
Cooperating Technical Partners	97.045	2,895,016
Pre-Disaster Mitigation (PDM)	97.047	2,284
Map Modernization Management Support	97.070	265,819
Buffer Zone Protection Plan (BZPP)	97.078	1,081,635
Disaster Assistance Project	97.088	16,190
Total Department of Homeland Security		<u>102,104,863</u>
TOTAL FEDERAL AWARDS		<u><u>\$6,917,435,350</u></u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$		\$	Conservation and Natural Resources
140,196			Economic and Community Affairs
49,075			Human Resources
40,459		40,459	Emergency Management Agency
71,116			Emergency Management Agency
27,367,348	A	26,681,509	Emergency Management Agency
15,087,858		14,155,591	Emergency Management Agency
25,682,306	A	18,177,049	Emergency Management Agency
3,067,430		1,661,430	Emergency Management Agency/Transportation
2,895,016			Economic and Community Affairs
2,284			Emergency Management Agency
265,819			Economic and Community Affairs
1,081,635		1,067,633	Homeland Security
16,190			Medicaid
<u>99,200,077</u>		<u>77,300,943</u>	
<u>\$6,858,109,791</u>		<u>\$ 1,159,665,510</u>	

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2007***

Note 1 – Purpose of the Schedule

Office of Management and Budget (OMB) Circular A-133, ***Audits of States, Local Governments, and Non-profit Organizations***, requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal financial assistance program identified in the Catalog of Federal Domestic Assistance (CFDA).

Note 2 – Significant Accounting Policies

- A. **Reporting Entity** – The accompanying schedule includes federal financial assistance programs administered by the State of Alabama for the fiscal year ended September 30, 2007. State agencies that receive separate audits in accordance with OMB Circular A-133 and federal financial assistance received by state colleges and universities are not included in the schedule.
- B. **Basis of Presentation** – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.
1. **Federal Financial Assistance** – Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 2. **Major Programs** – For the State of Alabama, a Type A program is defined as a program or cluster of programs for which total annual expenditures of federal awards exceeds \$20,574,329. Major programs consist of twenty-two Type A programs and clusters and eight high-risk Type B programs. Major programs comprise 85% of total federal program expenditures.
- C. **Basis of Accounting** – The information presented in the Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting, which is consistent with the other federal grant reports. Under this basis, expenditures are recorded when paid, and revenues are recognized when received. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2007***

- D. **Expenditures and Expenses** – When monies are received by one state agency and transferred to another state agency either for final expenditure or as a reimbursement for services, the federal financial assistance is reflected in the primary receiving/expending state agency's accounts. This is to avoid duplication and the overstatement of the aggregate level of federal financial assistance expended by the State of Alabama.

Note 3 – Other

- A. Commodities (Food Distribution CFDA #10.550, Summer Food Service Program for Children CFDA #10.559, and a portion of the Temporary Emergency Food Assistance Program CFDA #10.569) are included in the definition of federal financial assistance for the purpose of the accompanying schedule. Commodities, totaling \$24,282,902, were reported in accordance with GASB Statement Number 24 in the basic financial statements of the State of Alabama for the fiscal year ended September 30, 2007.
- B. During the fiscal year ended September 30, 2007, the Alabama Department of Public Health received \$32,011,726 in cash rebates from infant formula manufacturers on sales of formula to participants in the WIC Program (CFDA #10.557). Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16(m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefits costs. The rebate contracts allowed the Department to serve 38,055 more persons during the 2006-2007 fiscal year. This number is based on an average gross food package cost of \$70.10.
- C. The Community Development Block Grant-Section 108 Loan Guarantee Program (CFDA #14.248) had no new loans during the 2006-2007 fiscal year and an outstanding loan balance of \$1,865,000 at September 30, 2007.
- D. Total expenditures for the Unemployment Insurance Program (CFDA #17.225) include state and federal amounts of \$235,191,162 and \$41,635,011, respectively. The state portion of expenditures includes regular unemployment compensation. The federal portion includes administrative costs and unemployment compensation for ex-service members, former federal employees, and extended benefits for eligible individuals who have exhausted their regular unemployment compensation.
- E. Donation of Federal Surplus Personal Property (CFDA #39.003) is valued at 23.3% of the acquisition costs in accordance with a directive from the U. S. General Services Administration.

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2007***

- F. Receipts and expenditures reported on the schedule include \$848,441 and \$533,383, respectively, of Social Security Administration reimbursements under the Rehabilitation Services - Vocational Rehabilitation Grants to States Program (CFDA #84.126).
- G. The amount reported as receipts and expenditures for the Immunization Grants Program (CFDA #93.268) includes the value of immunization vaccines received and distributed in the amount of \$44,476,377 during the 2006-2007 fiscal year.
- H. Federal receipts for the Child Support Enforcement Program (CFDA #93.563) include the federal share of child support collected on behalf of recipients of assistance payments. Collections were \$7,062,547 during the 2006-2007 fiscal year.
- I. Interest income of \$78,735 was earned on the Help America Vote Act Title I funds (CFDA #39.011), and interest income of \$588,224 was earned on Help America Vote Act Title II funds (CFDA #90.401). These amounts are reported as receipts on the schedule.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Alabama, as of and for the year ended September 30, 2007, which collectively comprise the State of Alabama's basic financial statements, and have issued our report thereon dated March 31, 2008. Our report was modified to include a reference to other auditors. Below is a list which indicates the financial statements of the agencies and funds audited by other auditors and whether the audits were performed in accordance with ***Government Auditing Standards***.

Agencies/Funds Audited by Other Auditors	Audit Performed in Accordance with <i>Government Auditing Standards</i>	Audit Not Performed in Accordance with <i>Government Auditing Standards</i>
Alabama Educational Television Foundation Authority	X	
Alabama Public Health Care Authority	X	
Alabama Health Insurance Plan		X
Alabama State Port Authority	X	
State Employees' Insurance Board		X
Public Education Employees' Health Insurance Fund		X
Alabama Housing Finance Authority	X	
Alabama Water Pollution Control Authority	X	
Space Science Exhibit Commission	X	
Alabama Drinking Water Finance Authority	X	
Alabama Higher Education Loan Corporation		X
University of Alabama	X	
Auburn University	X	
University of South Alabama	X	
University of Montevallo	X	
Retirement Systems of Alabama		X
Employees' Savings Plans (PEIRAF and RSA-1)		X
Retired Education Employees' Health Care Trust		X
Retired State Employees' Health Care Trust		X
Prepaid Affordable College Tuition Program	X	
Alabama College Education Savings Plan		X

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. As indicated above, other auditors audited the financial statements of certain agencies and funds in accordance with ***Government Auditing Standards***. This report does not include the results of those other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Alabama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Alabama's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

The findings that follow are being presented in summary form in this report for security reasons. Details of the findings have been communicated to the affected state agencies.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Finding 01-01-01 – Contingency Planning and Disaster Recovery

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning.

The Department of Finance has begun implementation of a comprehensive disaster recovery plan which includes an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the disaster recovery plan and they did not have stand-alone policies and procedures to be followed in the event of a disaster. The following agencies did not have adequate contingency planning and disaster recovery policies and procedures in place:

Department of Human Resources
Department of Education
Office of the State Treasurer
Department of Mental Health and Mental Retardation
Alcoholic Beverage Control Board

Recommendations

State agencies should develop comprehensive policies and procedures to be followed in the event of a natural or man-made disaster. These disaster recovery plans should be tested and should include alternate processing facilities to be used in the event the primary processing facility is destroyed or inaccessible.

Finding 01-01-02 – Information Access Security

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide appropriate security for computer data and programs through the proper use of security software features and management policies. Computer data and programs are at risk of loss and corruption through error or intentional act. The following agencies did not have adequate policies and procedures in place for access security:

Department of Finance – Information Services Division
Department of Finance – FRMS Application Development Section

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Recommendation

Agencies should use management policies and security software to detect errors or intentional unauthorized acts and also to ensure errors and unauthorized acts are corrected in a timely manner.

Finding 01-01-04 – Application Development and Maintenance

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that only authorized computer application programs are developed or modified and that such programs and modifications function as intended and meet the needs of users. State agencies do not follow formal system development methodologies for new computer applications, modifications to existing applications, or emergency modifications. This increases the risk that unauthorized programs or changes will be made, programs or changes will not be tested, and programs or changes will not function as intended to meet user needs. State agencies do not adequately segregate the duties of personnel to prevent such errors from occurring. The following agencies did not have adequate policies and procedures in place for application development and maintenance:

Department of Finance – Information Services Division
Department of Finance – FRMS Application Development Section

Recommendations

State agencies should develop formal system development methodologies for new computer programs, modifications to existing programs, and emergency modifications. These methodologies should ensure that only authorized projects are initiated and such projects achieve the desired results. State agencies should adequately segregate the duties of employees to achieve the proper level of control of projects and to ensure that an employee does not perform conflicting duties.

Finding 01-01-05 – Physical Security

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that critical computer hardware and software were protected from unauthorized physical access. Although the Computer Services Bureau of the Department of Transportation implemented procedures to correct the previous finding to the extent possible, the Equipment Procurement and Services Bureau, which is responsible for the physical security of the central office building, did not have adequate policies and procedures in place for physical security over critical operations of the Department.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Recommendations

State agencies should develop policies and procedures to ensure that areas containing critical hardware or sensitive information is restricted to only those employees with a legitimate need to be in such areas. State agencies should develop policies and procedures to ensure that only authorized employees possess access devices or pass codes to gain entry to restricted areas.

Finding 01-01-06 – Hiring, Training, and Personnel Policies

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that employees hired to work in sensitive areas (i.e., the information technology environment) had the proper education and training necessary to perform the required duties and that such employees indicated no evidence of prior actions that might have a negative impact on the required duties. The Department of Transportation did not obtain evidence that prospective employees to be hired for sensitive work had not been involved in prior criminal activity that might have a negative impact on the employee's ability to perform the required duties.

Recommendation

The Department of Transportation should develop policies and procedures to ensure that employees are not hired that have a history of criminal activity that may have a negative impact on the employee's ability to perform sensitive duties.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***. We noted certain additional matters that we have reported to management of the State of Alabama and the affected agencies and funds in separate communications.

This report is intended solely for the information and use of management, the Governor, the Director of Finance, and State Comptroller, and other state officials, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

March 31, 2008

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the compliance of the State of Alabama with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The State of Alabama's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Alabama's management. Our responsibility is to express an opinion on the State of Alabama's compliance based on our audit.

The State of Alabama's basic financial statements include the operations of the Housing Finance Authority, the Water Pollution Control Authority, the Alabama Drinking Water Finance Authority, Educational Television Commission/Alabama Public Television Foundation, and Space Science Exhibit Commission that are component units of the State of Alabama. The federal awards expended by these component units are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2007. Our audit, described below, did not include the operations of these component units because other auditors were engaged to perform audits in accordance with OMB Circular A-133. The federal programs administered by these component units and the federal funds expended are as follows:

Component Unit	Federal Program	CFDA Number	Federal Expenditures
Housing Finance Authority	Home Investment Partnerships Program	14.239	\$27,458,940
Water Pollution Control Authority	Capitalization Grants for State Revolving Funds	66.458	\$16,535,456
Drinking Water Finance Authority	Capitalization Grants for Drinking Water - State Revolving Funds	66.468	\$ 6,782,713
Educational Television Commission/Alabama Public Television Foundation	E Learning for Educators	84.269A	\$ 4,030,931
	Public Telecommunications Facilities Program	11.550	\$ 3,369
State Employees' Insurance Board	Grants To States For Operation of Qualified High-Risk Pools	93.780	\$ 2,825,618
Space Science Exhibit Commission	National Aeronautics and Space Administration	N/A	\$ 2,727,861
	Federal Transit Authority Intermodal Center	20.500	\$ 5,761,145
	USSRC Building Bridges From Formal to Informal Education	23.011	\$ 97,461

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Alabama's compliance with those requirements.

As described in item 07-2-1, in the accompanying Schedule of Findings and Questioned Costs, the State of Alabama did not comply with requirements regarding Special Tests and Provisions that are applicable to its Medicaid Cluster (CFDA #93.775, #93.776, #93.777, and #93.778). Compliance with such requirements is necessary, in our opinion, for the State of Alabama to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 05-6-6.

Internal Control Over Compliance

The management of the State of Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Alabama's internal control over compliance.

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance listed below, and described in the accompanying Schedule of Findings and Questioned Costs, to be significant deficiencies.

97-9-8	05-6-3	07-2-3	07-4-2	07-9-1
02-1-1	05-6-6	07-3-1	07-5-1	07-9-2
02-2-1	07-2-1	07-3-2	07-6-1	
06-3-1	07-2-2	07-4-1	07-8-1	

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 07-2-1, 07-2-2, 07-5-1, and 07-6-1 to be material weaknesses.

The State of Alabama's response to the findings identified in our audit are described in the accompanying Auditee Response/Corrective Action Plan. We did not audit the State of Alabama's response and, accordingly, we express no opinion on it.

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the State of Alabama as of and for the year ended September 30, 2007, and have issued our report thereon dated March 31, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Governor, the Director of Finance, and State Comptroller, and other state officials, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

June 3, 2008 except for the
Schedule of Expenditures of
Federal Awards, as to which
the date is March 31, 2008

Schedule of Findings and Questioned Costs
Department of Finance
For the Year Ended September 30, 2007

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> X </u> Yes _____ None reported
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u> X </u> Yes _____ No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> X </u> Yes _____ None reported
Type of opinion issued on compliance for major programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u> X </u> Yes _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.550	Food Donation Program
10.551 and 10.561	Food Stamp Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
10.558	Child and Adult Care Food Program
14.228	Community Development Block Grants/State's Program
15.252	Abandoned Mine Land Reclamation Program
17.207, 17.801 and 17.804	Employment Service Cluster
17.225	Unemployment Insurance Program

Schedule of Findings and Questioned Costs
Department of Finance
For the Year Ended September 30, 2007

Identification of major programs continued:

CFDA Number(s)	Name of Federal Program or Cluster
17.245	Trade Adjustment Assistance
17.258, 17.259 and 17.260	Workforce Investment Act Cluster
20.205 and 23.003	Highway Planning and Construction Cluster
20.500 and 20.507	Federal Transit Cluster
64.015	Veterans State Nursing Home Care
84.010	Title I Grants to Local Education Agencies
84.318	Education Technology State Grants
84.367	Improving Teacher Quality State Grants
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.575 and 93.596	Child Care Development Cluster
93.658	Foster Care - Title IV - E
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.775, 93.776, 93.777 and 93.778	Medicaid Cluster
93.779	Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations
93.889	National Bioterrorism Hospital Preparedness Program
93.958	Block Grants for Community Mental Health Services
96.001	Social Security – Disability Insurance
97.036	Public Assistance
97.040	Chemical Stockpile Emergency Preparedness Program

Dollar threshold used to distinguish Between
Type A and Type B programs:

\$20,574,329

Auditee qualified as low-risk auditee?

_____ Yes X No

Schedule of Findings and Questioned Costs
Department of Finance
For the Year Ended September 30, 2007

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
01-01-01	Internal Control	<p><u>Finding 01-01-01 – Contingency Planning and Disaster Recovery</u></p> <p>We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning.</p> <p>The Department of Finance has begun implementation of a comprehensive disaster recovery plan which includes an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the disaster recovery plan and they did not have stand-alone policies and procedures to be followed in the event of a disaster. The following agencies did not have adequate contingency planning and disaster recovery policies and procedures in place:</p> <p>Department of Human Resources Department of Education Office of the State Treasurer Department of Mental Health and Mental Retardation Alcoholic Beverage Control Board</p> <p><u>Recommendation</u></p> <p>State agencies should develop comprehensive policies and procedures to be followed in the event of a natural or man-made disaster. These disaster recovery plans should be tested and should include alternate processing facilities to be used in the event the primary processing facility is destroyed or inaccessible.</p>	

Schedule of Findings and Questioned Costs
Department of Finance
For the Year Ended September 30, 2007

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
01-01-02	Internal Control	<p><u>Finding 01-01-02 – Information Access Security</u> We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide appropriate security for computer data and programs through the proper use of security software features and management policies. Computer data and programs are at risk of loss and corruption through error or intentional act. The following agencies did not have adequate policies and procedures in place for access security:</p> <p>Department of Finance – Information Services Division Department of Finance – FRMS Application Development Section</p> <p><u>Recommendation</u> Agencies should use management policies and security software to detect errors or intentional unauthorized acts and also to ensure errors and unauthorized acts are corrected in a timely manner.</p>	
01-01-04	Internal Control	<p><u>Finding 01-01-04 – Application Development and Maintenance</u> We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that only authorized computer application programs are developed or modified and that such programs and modifications function as intended and meet the needs of users. State agencies do not follow formal system development methodologies for new computer applications, modifications to existing applications, or emergency modifications. This increases the risk that unauthorized programs or changes will be made, programs or changes will not be tested, and programs or changes will not function as intended to meet user needs. State agencies do not adequately segregate the duties of personnel to prevent such errors from occurring.</p>	

Schedule of Findings and Questioned Costs
Department of Finance
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Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		<p><u>Finding Continued</u> The following agencies did not have adequate policies and procedures in place for application development and maintenance:</p> <p>Department of Finance – Information Services Division Department of Finance – FRMS Application Development Section</p> <p><u>Recommendation</u> State agencies should develop formal system development methodologies for new computer programs, modifications to existing programs, and emergency modifications. These methodologies should ensure that only authorized projects are initiated and such projects achieve the desired results. State agencies should adequately segregate the duties of employees to achieve the proper level of control of projects and to ensure that an employee does not perform conflicting duties.</p>	
01-01-05	Internal Control	<p><u>Finding 01-01-05 – Physical Security</u> We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that critical computer hardware and software were protected from unauthorized physical access. Although the Computer Services Bureau of the Department of Transportation implemented procedures to correct the previous finding to the extent possible, the Equipment Procurement and Services Bureau, which is responsible for the physical security of the central office building, did not have adequate policies and procedures in place for physical security over critical operations of the Department.</p>	

Schedule of Findings and Questioned Costs
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Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		<u>Recommendation</u> State agencies should develop policies and procedures to ensure that areas containing critical hardware or sensitive information is restricted to only those employees with a legitimate need to be in such areas. State agencies should develop policies and procedures to ensure that only authorized employees possess access devices or pass codes to gain entry to restricted areas.	
01-01-06	Internal Control	<u>Finding 01-01-06 – Hiring, Training, and Personnel Policies</u> We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that employees hired to work in sensitive areas (i.e., the information technology environment) had the proper education and training necessary to perform the required duties and that such employees indicated no evidence of prior actions that might have a negative impact on the required duties. The Department of Transportation did not obtain evidence that prospective employees to be hired for sensitive work had not been involved in prior criminal activity that might have a negative impact on the employee's ability to perform the required duties. <u>Recommendation</u> The Department of Transportation should develop policies and procedures to ensure that employees are not hired that have a history of criminal activity that may have a negative impact on the employee's ability to perform sensitive duties.	

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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
02-1-1	N/A	Statewide Cost Allocation Plan	<p><u>Finding</u> OMB Circular A-87, Appendix C, Subsection G.2, provides that an internal service fund may establish and maintain a reasonable level of working capital reserve in addition to the full recovery of costs. A working capital reserve as part of retained earnings of up to sixty days cash expenses for normal operating purposes is considered reasonable.</p> <p>During our testing of the State of Alabama Statewide Cost Allocation Plan, Section II-Direct Billed Costs, it was determined that some Internal Service Funds continue to have working capital reserves in excess of a sixty-day reserve. Our analysis was made using financial statements for the fiscal year ended September 30, 2007. This is considered noncompliance with OMB Circular A-87, Appendix C, Subsection G.2.</p> <p>The following internal service funds had reserves exceeding the sixty-day reserve: the Information Services Division Fund and the Service Division Funds (Motor Pool and Mail and Supply Room), all of which are administered by the Department of Finance.</p> <p><u>Recommendation</u> The Department of Finance should implement corrective action to ensure that billing rates used to charge other departments for services rendered through internal service funds provide for the full recovery of costs and a reasonable level of working capital reserve in accordance with OMB Circular A-87, Appendix C, Subsection G.2.</p>	

Schedule of Findings and Questioned Costs
Department of Finance
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Disclosure of the Risk Management Purchase of Series 1995-B Bonds from the Alabama Incentives Financing Authority</u></p> <p>In August 1995, the Alabama Incentives Financing Authority (AIFA) issued \$30,000,000 of Series 1995-B Capital Appreciation bonds. Proceeds from the sale of the bonds were used to assist new businesses locating in the State.</p> <p>The Division of Risk Management, Fund 0544, is the sole holder of the bonds, which were not publicly sold. The purchase of the bonds was recorded and accounted for as an investment in prior CAFRs. In the 2003-2004 fiscal year, the State of Alabama Department of Finance determined that the transaction would be more appropriately classified as an interfund loan. We concurred with this reclassification.</p>	

Schedule of Findings and Questioned Costs
Alabama Medicaid Agency
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
02-2-1	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<p><u>Finding</u> The U. S. Department of Health and Human Services, Centers for Medicare and Medicaid Services notified the Alabama Medicaid Agency that approval of the State’s Medicaid Waiver under Section 1915(b)(1) and (4) of the Social Security Act known as the Partnership Hospital Plan (PHP) would expire April 29, 2002. Thereafter, Alabama Medicaid operated the PHP program under the Alabama Medicaid Agency State Plan. Both the Waiver and State Plan provided for a capitation rate that was paid monthly for each Medicaid eligible, instead of payments to hospitals when services were received. Section AL-95-14 of the State Plan pertaining to the operation of the Partnership Hospital Plan provides for a specific methodology to calculate the capitation rates. It appears that the capitation rates paid after the Waiver ended were not computed in accordance with provisions of the State Plan, Section AL-95-14.</p> <p><u>Recommendation</u> Capitation rates paid under the Partnership Hospital Plan program should be computed in accordance the Alabama Medicaid Agency State Plan, Section AL-95-14.</p>	

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Alabama Medicaid Agency
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-2-1	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<p><u>Finding</u></p> <p>As indicated in our Finding Number 02-02-1, Alabama Medicaid pays each of eight district Partnership Hospital Plans (PHPs) a capitation rate instead of using the method specified in its State Plan to calculate capitation payments. Essentially, this amount is equal to the number of Medicaid eligibles residing in the PHP's geographical area multiplied by a negotiated capitation rate. These negotiated rates are included in contracts between Medicaid and the PHPs. Medicaid used the negotiated contract rates for fiscal year 2006 to calculate the PHP payments from October 2006 through May 2007 of fiscal year 2007. In June 2007, a retroactive adjustment was made to compensate for the differences between the old and new negotiated rates. However, Medicaid negotiated a flat monthly payment in July 2007. Medicaid then used this to pay the PHPs in June 2007 when the contracts did not become effective until July 2007. Medicaid made payments to PHPs under the new contract from June to September 2007. Due to disputes with CMS over the flat monthly payments, Medicaid subsequently created a final contract for negotiated rates that were retroactive to October 1, 2006. This is a material weakness in internal controls and material noncompliance with the contracts and the State Plan. Questioned costs, if any, were not readily determinable.</p>	

Schedule of Findings and Questioned Costs
Alabama Medicaid Agency
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<u>Recommendation</u> Medicaid should ensure that payments made are in accordance with their approved State Plan and contracts.	
07-2-2	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<u>Finding</u> An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. While performing reconciliations between Medicaid's financial records and the PSC-272 reports, it was determined that the beginning cash balances were incorrect for the third and fourth quarter PSC-272 reports. The third quarter beginning cash balance was understated by \$10,968.74 and the fourth quarter beginning cash balance was overstated by \$43,644,246.82. This is a material weakness in internal controls and noncompliance with federal laws and regulations. <u>Recommendation</u> The Medicaid Agency should strengthen their internal controls to ensure that the correct beginning cash balances are used and that the balances used are capable of being traced back to the supporting documents, to ensure amounts reported in the PSC-272 reports are materially accurate.	

Schedule of Findings and Questioned Costs
Alabama Medicaid Agency
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-2-3	93.779	U. S. Department of Health and Human Services; Katrina Stabilization Grant	<p><u>Finding</u></p> <p>The Alabama Medicaid Agency received the Hurricane Katrina Stabilization Grant to further assist those individuals impacted by Hurricane Katrina. Medicaid received this grant in two parts. Part 1 of this grant stated that Medicaid must submit an annual (SF-269) Financial Status and Progress Report to CMS. Part 2 of this grant stated that Medicaid must submit quarterly (SF-269) Financial Status Reports to CMS. Medicaid did not submit an annual (SF-269) Financial Status Report nor did Medicaid submit an annual Progress Report to CMS as specified in Part 1 of the grant award. Also, Medicaid failed to submit a first, second, and third quarter (SF-269) Financial Status Report for Part 2 of the Katrina Stabilization Grant. This is noncompliance with the special Terms and Conditions of the grant award.</p> <p><u>Recommendation</u></p> <p>The Alabama Medicaid Agency should submit Progress and Financial Status Reports in accordance with the grant terms and conditions.</p>	

Schedule of Findings and Questioned Costs
Alabama Medicaid Agency
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<u>Comment</u> Medicaid has been in an ongoing dispute with the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), regarding some points of a 14-point list of areas where the federal agency had questions about Alabama Medicaid's operations including funding practices used by Alabama and other states to draw federal Medicaid matching funds. CMS and/or their auditor's OIG (Office of Inspector General) questioned excessive payments to public health facilities, circumvention of statutory ceilings for state Medicaid payments, called the "upper payment limit" (UPL), maximization of disproportionate-share hospital (DSH) payments, and pharmacy taxes. Disallowance actions were possible; however, no funds have been officially disallowed and recouped. In February 2005, a compromise was reached between the two parties. Progress has been made and some issues have been resolved; however, Medicaid is continuing to work with CMS on implementing changes to resolve the remaining issues.	

Schedule of Findings and Questioned Costs
Department of Economic and Community Affairs
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
06-3-1	14.228	U. S. Department of Housing and Urban Development; Community Development Block Grants/State's Program (CDBG)	<u>Finding</u> According to OMB Circular A-133 Compliance Supplement, the pass-through entity is responsible for ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; issuing management decisions on audit findings within six months after receipt of the subrecipient's audit report; ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings; and ensuring that subrecipient noncompliance is properly reflected in the pass-through entity's records and reports.	
	93.568	U. S. Department of Health and Human Services; Low Income Home Energy Assistance Program	During our review of 25 subrecipient audit files maintained in the Audit Division the following errors were noted: The Alabama Department of Economic and Community Affairs' Audit Division enters all contracts for federal grant programs by fiscal year on a report (Audit Division's Due and Delinquent Report) to determine whether subrecipients received grants totaling \$500,000 or more and are required to have A-133 audits.	

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Department of Economic and Community Affairs
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u></p> <p>There was one instance where no contracts were entered for one subrecipient of CDBG program funds. Because of this omission, the Audit Division's Due and Delinquent Report did not reflect that the subrecipient was required to have an A-133 audit and no audit report was received.</p> <p>There was one instance where a subrecipient of the LIHEAP program was listed on the Due and Delinquent Report, but had not submitted an audit report. We were told that the subrecipient had been given a verbal extension; however, there was no documentation of an extension in the audit file.</p> <p>This is a significant deficiency in internal control and noncompliance with federal laws and regulations.</p> <p><u>Recommendation</u></p> <p>The Alabama Department of Economic and Community Affairs should implement policies and procedures necessary to ensure subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133.</p>	

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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-3-1	17.258 17.259 17.260	U. S. Department of Labor; Workforce Investment Act Cluster	<p><u>Finding</u></p> <p>The OMB Circular A-133 Compliance Supplement states that a minimum of 95 percent of eligible participants in Youth Activities in the Workforce Investment Act (WIA) Program must meet the criteria of disadvantaged low-income youth. During our review of 40 WIA participants' files at the Alabama Department of Economic and Community Affairs, we noted one instance in which a file could not be located for a participant. We also discovered that this participant should not have been included as an active youth or in the Workforce Investment Act Title I-B Standardized Record Data (WIASRD) data because they had completed or were no longer receiving services from the program.</p> <p>This is a significant deficiency in internal controls and noncompliance with federal laws and regulations.</p> <p><u>Recommendation</u></p> <p>The Alabama Department of Economic and Community Affairs should ensure that accurate data is included in the WIASRD report.</p>	

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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-3-2	17.258 17.259 17.260	U. S. Department of Labor; Workforce Investment Act Cluster	<p><u>Finding</u></p> <p>According to the Workforce Investment Act Title I-B Standardized Record Data (WIASRD) General Reporting Instructions and Specifications from the Employment and Training Administration, once a WIASRD file is submitted, updated records must be provided in each subsequent year until all relevant outcome information is completed. In other words, subsequent submissions are expected to occur for at least two full program years after the original submission.</p> <p>The WIASRD data reports active youth and exiters (youth completing or leaving the program) during the applicable reporting period. During our review of 40 WIA youth participant files, we noted one participant in which an exit date was not listed in the WIASRD and the individual should have been exited prior to the Program Year (PY) 2006 WIASRD.</p> <p>We reviewed the WIASRD data for five additional participants in which an exit date was not listed. Four out of the five participants completed their last service or attained a youth goal before the reporting period for the PY06 WIASRD.</p> <p>These participants should not have been included in the PY06 WIASRD since they completed their last service or attained a youth goal prior to the reporting period. There were also many other instances in which an exit date was not listed for participants.</p>	

Schedule of Findings and Questioned Costs
Department of Economic and Community Affairs
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u> Therefore, it appears that the number of youth participants included in the PY06 WIASRD has been overstated.</p> <p>This is a significant deficiency in internal controls and noncompliance with federal laws and regulations.</p> <p><u>Recommendation</u> The Alabama Department of Economic and Community Affairs should implement controls in order to prevent incorrect data from being submitted to the Department of Labor. The WIASRD should only include data that falls within the appropriate reporting period.</p>	

Schedule of Findings and Questioned Costs
Department of Education
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-4-1	84.367	U. S. Department of Education; Title II, Part A - Improving Teacher Quality State Grants	<p><u>Finding</u></p> <p>According to 20 USC 6622 (c)(2), to be eligible to receive a subgrant of Title II, Part A funds, a Local Educational Agency (LEA) must conduct an assessment of local needs for professional development and hiring, as identified by the LEA and school staff. The needs assessment must be conducted with the involvement of teachers, including teachers who work in Title I, Part A targeted assistance programs and school-wide program schools.</p> <p>During testing of 20 LEAs selected for review, the Comprehensive Monitoring Reviews (CSMRs) for those LEAs were obtained and reviewed. It was noted that the Department of Education's monitoring process for fiscal year 2006-2007 was revised and no longer included procedures to determine whether a needs assessment was conducted and whether Title I, Part A teachers from targeted assistance or school-wide program schools participated in the needs assessment. Therefore, the LEA Comprehensive Professional Development Plans were obtained from department personnel to verify the LEAs compliance with the requirement. Based on our review of the Plans, it was determined that the needs assessments were conducted by the LEAs.</p>	

Schedule of Findings and Questioned Costs
Department of Education
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u> However, it was not determinable if Title I, Part A teachers from targeted assistance and school-wide programs schools participated in the needs assessment. This is a significant deficiency in internal control and noncompliance with federal laws and regulations.</p> <p><u>Recommendation</u> The Department of Education should implement procedures to ensure that the needs assessments conducted by the LEAs include participation from Title I, Part A teachers from targeted assistance or school-wide programs. Additionally, supporting records should be maintained to document that all required participants were involved in the needs assessments.</p>	

Schedule of Findings and Questioned Costs
Department of Education
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-4-2	84.011	U. S. Department of Education; Migrant Education	<p><u>Finding</u></p> <p>An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. The Migrant Education program requires the Department of Education to submit the Consolidated State Performance Report, Part II which includes population and program performance data for migrant children. The totals for the key line items reported in the Consolidated State Performance Report, were not verifiable because the Department of Education did not maintain the appropriate supporting documentation. This is a significant deficiency in internal controls.</p> <p><u>Recommendation</u></p> <p>The Department of Education should maintain the appropriate supporting documentation for key line items reported in the Consolidated State Performance Report, Part II for audit purposes.</p>	

Schedule of Findings and Questioned Costs
Emergency Management Agency
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-5-1	97.040	Department of Homeland Security: Chemical Stockpile Emergency Preparedness Program	<p><u>Finding</u></p> <p>The Davis-Bacon Act (40 U.S.C. 276a to a-7) as supplemented by U. S. Department of Labor Regulations (29 CFR Part 5) requires that non-federal entities include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations 29 CFR Part 5. This includes a requirement for the contractor to maintain payrolls and basic records related to the payrolls during the course of the work and for a period of three years thereafter for all laborers and mechanics working at the site of the work. These records are to contain the name, address and social security number of each worker, his or her classification, hourly rates of wages paid, daily and weekly number of hours worked, deductions made and actual wages paid. Additionally the CFR requires the contractor to submit a copy of all payrolls to the Alabama Emergency Management Agency weekly for each week in which any contract work is done. These payrolls must contain all the information mentioned above. The contractor must attach a “Statement of Compliance” to the payrolls, signed by him/her or their agent who pays or supervises the employees. This statement certifies that the payroll contains the required information.</p>	

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Emergency Management Agency
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u> The construction contract tested at the Alabama Emergency Management Agency did not contain the requirements that the contract or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations contained within 29 CFR Part 5. This is a material weakness in internal control and noncompliance with the requirements of the Davis-Bacon Act.</p> <p><u>Recommendation</u> The Alabama Emergency Management Agency should require contractors on federally funded construction contracts to comply with the requirements of the Davis-Bacon Act.</p>	

Schedule of Findings and Questioned Costs
Department of Human Resources
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
05-6-3	93.558	U. S. Department of Health and Human Services; Temporary Assistance for Needy Families	<p><u>Finding</u></p> <p>45CFR265.7 requires each State's quarterly TANF Data Report (ACF-199) be complete and accurate. This means that the reported data accurately reflect the information available to the State in the case records, financial records, and automated data systems. The data should be free from computational errors and are internally consistent. The State should report data on all required elements for all families. These reports are used to determine if the State has met or exceeded their annual work participation rate standards. Failure to do so could mean a penalty of up to 21% of the grant funds. We compared the data included in the ACF-199 Report to the client files for the key lines items as stated in the March 2007 Compliance Supplement for this report.</p> <p>In order to test the completeness and accuracy of the ACF-199 Report, we traced the information from the ACF-199 Report to the case files that are maintained at the county level. During our testing of the ACF-199 Report, we noted the following errors.</p> <p>There was one instance noted at both the Montgomery County Department of Human Resources and the Mobile County Department of Human Resources where a client did not have their required elements included on the ACF-199 for the month of March 2007.</p>	

Schedule of Findings and Questioned Costs
Department of Human Resources
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u></p> <p>We noted 16 instances, where the ACF-199 Report indicated a different number of months counting towards the federal benefit time limit (a key line item) than what the Department of Human Resources case file or automated data system actually indicated. In each instance, it appears that the ACF-199 Report reflected an additional month of benefits had been received by the client.</p> <p>We noted three cases at the Macon County Department of Human Resources where the ACF-199 Report indicated either the work participation status, work participation activity, work-eligible individual indicator, family affiliation code, or the federal time limit provisions code was not accurate. Two of the cases resulted in multiple errors.</p> <p>This is noncompliance with federal laws and regulations and a significant deficiency in internal controls.</p> <p><u>Recommendation</u></p> <p>The Department of Human Resources should ensure that only complete and accurate information is reported on the ACF-199 Report.</p>	

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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
05-6-6	10.551 10.561	U. S. Department of Agriculture; Food Stamp Cluster	<p><u>Finding</u></p> <p>To ensure that the State operates its Food Stamp Program in compliance with the law, program regulations and the State agency's plan of operation, the State is required to have a system for monitoring and improving the administration of the program (7CFR275.1), particularly the accuracy of eligibility and benefit determinations. Accuracy involves not only the correct determinations of eligibility and benefit amounts, but also, maintaining accurate information on those who apply for benefits.</p> <p>We tested 60 food stamp case files for compliance with federal program requirements relating to the Food Stamp program. During our testing, we noted one case where it appears the Department did not appear to be complying with the requirement to accurately and completely process and store all case file information for eligibility determination and benefit calculation. The error appeared to be an oversight and it resulted in an overpayment. The following discrepancy was noted during our testing.</p> <p>During our testing of the food stamp files at the Mobile County Department of Human Resources, we noted one instance where the Department calculated the monthly benefit amount using the client's annual medical expense instead of the monthly medical expense. Therefore, the client received more monthly benefits than they were entitled to.</p>	\$1,067.00

Schedule of Findings and Questioned Costs
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u></p> <p>This error resulted in a known questioned cost of \$97.00 for the test month, and a likely (projected) questioned cost of \$166,769.47 for the test month.</p> <p>In addition there was \$970.00 in questioned cost for preceding and subsequent months related to the tested case file.</p> <p>This is noncompliance with federal laws and regulations and a significant deficiency in internal controls. Total questioned cost is \$1,067.00.</p> <p><u>Recommendation</u></p> <p>The Department of Human Resources should ensure that the information entered into the system is accurate so that benefit calculations are correct.</p>	

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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-6-1	93.558	U. S. Department of Health and Human Services; Temporary Assistance for Needy Families	<u>Finding</u> The Department of Human Resources administers the Temporary Assistance for Needy Families (TANF) and Social Services Block Grant (SSBG) programs. OMB Circular A-133 requires that non-federal entities that expend \$500,000 or more in a year in federal awards have a single audit conducted for that year. Also, the contracts between the Department of Human Resources and the subrecipients contain a clause that require an audit report be submitted to the Department of Human Resources, Office of Audit, no later than June 30 th following the fiscal year for which the subrecipient's audit was conducted.	
	93.667	U. S. Department of Health and Human Services; Social Services Block Grant	During our examination, we requested all four audit reports for the subrecipients that received Federal TANF and SSBG disaster funds. We noted two instances where the Department did not have an audit report on file for the subrecipients 2006 fiscal year. These reports should have been received by June 30, 2007, but were not. This is considered to be noncompliance with Federal Rules and Regulations. Also, it is a material weakness in Internal Controls. <u>Recommendation</u> The Department of Human Resources should ensure that subrecipients expending \$500,000 or more in federal awards submit audit reports as required by OMB Circular A133.	

Schedule of Findings and Questioned Costs
Department of Mental Health and Mental Retardation
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Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-8-1		U. S. Department of Health and Human Services:	<u>Finding</u> According to the OMB Circular A-133, Section __.320 (a), audits should be completed and received within the earlier of thirty days after the receipt of the audit report, or nine months after the end of the audit period; unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide.	
	93.958	Block Grants for Community Mental Health Services		
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	<p>An adequate system of internal controls should ensure that the required audit reports are submitted before the nine month deadline. During the review of 18 required A-133 audit reports from subrecipients of the Alabama Department of Mental Health and Mental Retardation (DMH/MR), the following were noted:</p> <p>One subrecipient submitted a FY 2005 audit report instead of the required FY 2006 audit report; this was not detected by DMH/MR. The FY 2006 audit report has still not been submitted.</p> <p>Three subrecipients submitted their audit reports after the nine month due date, ranging from twenty-three days late to five months late. DMH/MR only attempted to notify one of these subrecipients of its noncompliance by sending a reminder letter.</p>	

Schedule of Findings and Questioned Costs
Department of Mental Health and Mental Retardation
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u> Their established systems of internal controls were compromised by lack of reviews of whether audits were received or not, and failure to follow up with subrecipients. This is considered a significant deficiency in internal controls.</p> <p><u>Recommendation</u> The State Department of Mental Health and Mental Retardation should ensure required A-133 audits are completed and received within the earlier of thirty days after the receipt of the audit report by the subrecipient, or nine months after the end of the audit period; unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide, in accordance with OMB Circular A-133, Section __.320 (a).</p>	

Schedule of Findings and Questioned Costs
Department of Public Health
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
97-9-8	10.557	U. S. Department of Agriculture; Special Supplemental Nutrition Program for Women, Infants, and Children	The Department of Public Health utilizes the central data processing facilities maintained by the State of Alabama Department of Finance to process data and interface with the central accounting system of the State of Alabama. An examination and review was performed of both manual and automated controls intended to ensure that data processed by the system is accurate, complete, and authorized. A finding and recommendation relating to electronic data processing is summarized below. For security reasons, a more detailed report was made available to the Alabama Department of Public Health in a separate document.	
	93.994	Department of Health and Human Services; Maternal and Child Health Services Block Grant to the States	<p><u>Finding</u></p> <p>The Alabama Department of Public Health has developed a formal contingency plan that includes policies and procedures to be followed in the event of a disaster that adversely affects the operations of its data processing. Applications essential for accounting for federal programs reside on the Finance Department Information Systems Division (ISD) mainframe computer. The Department does not have a contingency plan for mainframe applications in case the ISD mainframe becomes unavailable.</p>	

Schedule of Findings and Questioned Costs
Department of Public Health
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u> ISD has established an alternate processing facility which is located at the Alabama Supercomputer Authority in Huntsville, Alabama. ISD plans to make this facility available to state agencies and departments to use as a back-up recovery facility. The agencies will have the responsibility of storing back-up files in a compatible format. Agencies will be phased in as resources become available. It is expected that the Supercomputer processing site will eventually resolve this finding. However, at this time the finding is not resolved. This remains a significant deficiency in internal controls.</p> <p><u>Recommendation</u> The Alabama Department of Public Health should negotiate and formalize an agreement that provides alternate processing facilities to be used in the event its primary processing facilities are destroyed or inaccessible following a disaster. Such an agreement and the policies and procedures to follow to implement alternate processing facilities should be incorporated into its existing contingency plan and this plan should be tested.</p>	

Schedule of Findings and Questioned Costs
Department of Public Health
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-9-1	93.889	Department of Health and Human Services; National Bioterrorism Hospital Preparedness Program	<p><u>Finding</u></p> <p>According to the OMB Circular A-133 Compliance Supplement, the pass-through entity is responsible for ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, issuing management decisions on audit findings within 6 months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.</p> <p>The Alabama Department of Public Health's Center for Emergency Preparedness lacked adequate controls to ensure that subrecipients met the audit requirements of OMB Circular A-133.</p> <p>Sufficient controls should be in place to ensure that subrecipients receive the required audits and to ensure that subrecipient audits are received and reviewed in a timely manner.</p> <p>In addition, OMB Circular A-133 requires some form of monitoring of entities not required to have audits to ensure that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.</p>	

Schedule of Findings and Questioned Costs
Department of Public Health
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><u>Finding Continued</u> The Center for Emergency Preparedness did not have a monitoring system in place to determine whether the required audits were received and did not maintain adequate documentation of other monitoring activities.</p> <p>This is a significant deficiency in internal controls over subrecipient monitoring and noncompliance with federal laws and regulations.</p> <p><u>Recommendation</u> The Alabama Department of Public Health should implement policies and procedures necessary to ensure subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133. Additionally, procedures should be implemented to monitor subrecipients not required to have audits. Documentation of all monitoring activities should be retained.</p>	

Schedule of Findings and Questioned Costs
Department of Public Health
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
07-9-2	10.557	U. S. Department of Agriculture; Special Supplemental Nutrition Program for Women, Infants, and Children	<u>Finding</u> OMB Circular A-87, Attachment B, Selected Items of Cost, requires that personnel activity reports (time sheets) reflect an after-the-fact distribution of the actual activity of each employee and account for the total activity for which each employee is compensated.	
	93.767	Department of Health and Human Services; State Children's Insurance Program	Out of 53 time sheets tested, we noted eight timesheets where employees either charged time to the incorrect cost center or failed to record on their timesheets all activity for which they were compensated. Employees or their designees enter their time in the E-CATS system (Electronic Cost Accounting Time Sheet system). Not all employees have access to a computer and, therefore, designees are named to enter in time for some	
	93.889	Department of Health and Human Services; National Bioterrorism Hospital Preparedness Program	employees. Based on the tests performed, it does not appear that adequate controls were in place to detect such errors on the timesheets. These errors were not corrected by Public Health until after we informed Public Health of them. The corrections to the timesheets were not made until after the related salary and benefits costs were already distributed and, therefore, some costs may have been distributed incorrectly. This is a significant deficiency in internal controls and noncompliance with federal laws and regulations.	

Schedule of Findings and Questioned Costs
Department of Public Health
For the Year Ended September 30, 2007

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<u>Recommendation</u> The Alabama Department of Public Health should implement procedures to ensure that time sheets account for the total activity for which each employee is compensated and time is charged to the appropriate cost centers.	

Summary Schedule of Prior Audit Findings
Department of Finance
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(b), the Alabama Department of Finance has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
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02-1-1	<p>With the Information Services Fund, the Finance Department has negotiated directly with and paid to the Department of Health and Human Services (DHHS) the overcharges for fiscal years including and prior to 2003. With the negotiations completed for those fiscal years, working capital balances accumulated to that point are not contested by DHHS and should not be included in the calculation of working capital beginning with the 2004 fiscal year. The Department is working directly with DHHS to resolve overcharges by fiscal year for 2004 and forward. The Department continues to analyze and adjust rates, with the intent of reducing working capital reserves, and as a result less being paid to DHHS for each subsequent fiscal year.</p>
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With the Motor Pool Fund, the Finance Department experienced an increase in operating expenses with the continual escalation of the cost of gasoline and petroleum products. Working capital has also been expended in fiscal year 2007 to purchase new fleet vehicles. Some of these vehicles are alternative fuel vehicles; the Motor Pool has made capital investments to provide for the proper maintenance of these environmentally friendly vehicles.

With the Central Mail and Supply Fund, the Finance Department has purchased additional equipment to upgrade its mail processing and to comply with postal regulations. The impact of these additional expenditures has been a reduction in the working capital balance.

Summary Schedule of Prior Audit Findings
Alabama Medicaid Agency
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(b), the Alabama Medicaid Agency has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No. Status of Prior Audit Finding

02-2-1 Corrective action planned: State plan amendment 05-009 is submitted and is pending approval from CMS. This amendment incorporates the current methodology and eliminates the Partnership Hospital Program effective September 30, 2008.

04-2-3 Corrective action planned: The Alabama Medicaid has monitored subrecipient's use of Federal awards through site visits and limited scope audits.

06-2-1 Corrective action planned: Spreadsheet discrepancies were due to formulas being omitted from cells that calculated the lower limit error rate. The spreadsheet was copied over from a previous spreadsheet and certain sections did not copy. All cells used in the spreadsheets were verified to ensure they contained the correct formula. For the time period in question, all case files were again reviewed for accuracy, claims data and PHP rates were recalculated and the error rate was amended. A corrected copy of the error rate was sent to CMS and other divisions as required. Further review of prior months revealed that this was an isolated incident and the correct payment methodology and calculations were used for previous periods.

In order to ensure that this discrepancy will not occur again, we will verify that the cells contain all necessary formulas to calculate the error rate prior to use of the spreadsheet. We will also implement use of the Recalculation of Quality Control Payment Error Rate spreadsheet for each review period. This spreadsheet, which was obtained from the Examiner, will be used to confirm that calculations are accurate. The Recalculation of Quality Control Payment Error Rate spreadsheet is designed to calculate the error rate differently from the current process. It uses the same methodology; however, total dollars spent including misspent dollars and number of eligibles are used to derive the error rate. Each process should have the same annual and lower limits if utilized correctly.

Summary Schedule of Prior Audit Findings
Alabama Medicaid Agency
For the Year Ended September 30, 2007

To ensure the correct capitation rates are used, Quality Control staff will receive monthly updates to Medicaid recipient listing files that are to be used to determine capitation rates. Quality Control will also contact Financial Management at the end of each six-month sample period to ensure that there are no changes in the capitation rate. Financial Management will immediately notify the Associate Director of the Quality Control Unit of rate changes.

Quality Control further plans to change the current procedure for the review/calculation of claims. PHP calculations will be completed by the MCBS, files will be distributed to the QC reviewers to pull claims, re-verify PHP rates and calculate claim amount(s) for recipients. The unit supervisor will conduct a 100% review of completed reviews for correctness. The above documents will be subject to further review by the division director.

06-2-2 Corrective action planned: The Agency has worked with the Examiner's of Public Accounts, State Comptroller's office, the Executive Budget Office and the affected sister Agencies to ensure that intergovernmental transfers meet requirements specified by Sections 1903(w)(6)(A) and 1902(a)(30) of the Social Security Act and 42 CFR 433.51.

Summary Schedule of Prior Audit Findings
Department of Economic and Community Affairs
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(b), the Alabama Department of Economic and Community Affairs has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
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06-3-1	Corrective action planned: The ADECA Audit Staff continues to monitor the input of data into the Audit Automated Information System (AMS) to ensure compliance with OMB Circular A-133 and to ensure that required reports are submitted in a timely manner. However, due to the volume of information and the limited number of staff, it is inevitable the errors will occur. When errors do occur and are detected, corrective actions are taken immediately. Particular attention is given when placing files back after reviews to avoid the dislocating of files.
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Summary Schedule of Prior Audit Findings
Department of Education
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(b), the Alabama Department of Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
06-4-1	Corrective Action was taken.
06-4-2	Not completed at this time. Progress has been made but additional time is needed to complete the procedures and controls started to ensure the accuracy and completeness of the information. Revised anticipated completion date: September 2008
06-4-3	Corrective Action was taken.
06-4-4	Corrective Action was taken.

Summary Schedule of Prior Audit Findings
Emergency Management Agency
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(b), the Emergency Management Agency has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
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06-5-1	Corrective Action was taken.
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06-5-2	Corrective Action was taken.
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Summary Schedule of Prior Audit Findings
Department of Human Resources
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(b), the Alabama Department of Human Resources has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
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05-6-3	Contact person(s): Melody Armstrong Original response is still valid. Training and supervisory case record reviews and state office re-reviews continue to identify these oversights and bring attention to this matter. These reviews are ongoing, routine activities. Case Record Review documents are used to ensure accuracy. We originally listed as corrective actions both programming modifications to correctly select cases and programming modifications to correct the error of the discrepancy in the two data sources. We are on target for completion of this corrective programming by December 31, 2007, as stated.
05-6-4	Corrective Action was taken.
05-6-6	Contact person(s): Patricia Huffman Our office conducted a Management Evaluation on November 8, 2007, which included a review of the corrective action activities cited for this audit. After the review, the Consultant recommended closure of the earned and unearned income activities. For purposes of this audit, we consider the corrective action closed.
06-6-1	Corrective Action was taken.

Summary Schedule of Prior Audit Findings
Department of Public Health
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(b), the Alabama Department of Public Health has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
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97-9-8	As stated before, the Department of Public Health has neither the authority nor ability to contract for an alternate processing facility. That ability rests solely with the Department of Finance Information Services Division (ISD). ISD, in cooperation with the Alabama Department of Transportation, has established and tested an alternate processing facility located in Huntsville, Alabama at the Alabama Supercomputer Authority (ASA) installation. We are now working with ISD to convert our data and test our systems at the alternate testing facility by March 2008.
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Anticipated completion date: March 2008

Summary Schedule of Prior Audit Findings
Department of Conservation and Natural Resources
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(b), the Alabama Department of Conservation and Natural Resources has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
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06-13-1	Corrective action has been taken.
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DCNR has incorporated into contracts and grants the following:

Certification Regarding Debarment, Suspension, and Other Responsibility Matters

The Contractor certifies to the best of its knowledge and belief that it and its principals:

- (a) Are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transactions by any Federal department or agency.
- (b) Have not within a three year period preceding this agreement been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State, or local) transaction or contract under a public transaction; violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, falsification or destruction of records, making false statements, or receiving stolen property;
- (c) Are not presently indicted for or otherwise criminally or civilly charged by a government entity (Federal, State, or local) with commission of any of the offenses enumerated in paragraph (b) of this certification; and
- (d) Have not within a three-year period preceding this agreement had one or more public transactions (Federal, State, or local) terminated for cause or default.

DCNR also utilizes the Excluded Party Listing System as needed to assure compliance with OMB Circular A-102 Common Rule, Section .35.

Summary Schedule of Prior Audit Findings
Department of Postsecondary Education
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(b), the Alabama Department of Postsecondary Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2007.

Finding

Ref. No.	Status of Prior Audit Finding
06-17-1	Corrective action has been taken.
06-17-2	Corrective action has been taken.

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Department of Finance
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(c), the Department of Finance has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 01-01-02 – Information Access Security

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide appropriate security for computer data and programs through the proper use of security software features and management policies. Computer data and programs are at risk of loss and corruption through error or intentional act. This is applicable to the Information Services Division and the FRMS Application Development Section.

Contact person(s): L. Cathern Bailey, CISSP
IT Planning, Standards & Compliance
Security – State RACF Administration
64 North Union Street, Folsom Admin Bldg., Room 212
(334) 353-4268
FAX (334) 353-4469

Corrective action planned: Action plan was developed in 2006 to implement security software features/capabilities. Several of the specific action steps are completed and ISD is on schedule with the implementation activities of remaining action steps.

Anticipated completion date: August 1, 2008

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Department of Finance
For the Year Ended September 30, 2007

Finding 01-01-04 – Application Development and Maintenance

We reviewed internal control policies and procedures affecting the ability of certain state agencies to provide assurance that only authorized computer application programs are developed or modified and that such programs and modifications function as intended and meet the needs of users. State agencies do not follow formal system development methodologies for new computer applications, modifications to existing applications, or emergency modifications. This increases the risk that unauthorized programs or changes will be made, programs or changes will not be tested, and programs or changes will not function as intended to meet user needs. State agencies do not adequately segregate the duties of personnel to prevent such errors from occurring. This is applicable to the Information Services Division and the FRMS Application Development Section.

Contact person(s): Julie Robertson, Assistant Director
Applications Development and Support
Information Services Division
Folsom Administration Building, Suite 758
(334) 242-3052
julie.roberston@isd.alabama.gov

Corrective action planned: ISD Applications Development and Support has prepared a Policies and Procedures document that describes the processes and procedures for system development, change management and applications security for all sections of the Office: FRMS, Mainframe and Client Server Applications, and Web Services. These procedures will provide standardization for all ISD development and maintenance, ensure that applications are developed using accepted methodologies and define change control processes for integrity and security of software and data.

The role of Change Manager is mentioned several times in the document. Creation of this position will allow segregation of potentially conflicting duties and lay the framework for a more formalized change management process in ISD, including the establishment of a Change Control Board. At this time, ISD does not have a Change Manager. It is the intent of the Assistant Director, Applications Development and Support, however, to temporarily assign the migration duties of this position to an ISD staff member who is not involved in development or support of a software system.

Anticipated completion date: August 1, 2008

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Alcoholic Beverage Control Board
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Alcoholic Beverage Control Board has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 01-01-01 – Contingency Planning and Disaster Recovery

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has begun implementation of a comprehensive disaster recovery plan which includes an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have stand-alone policies and procedures to be followed in the event of a disaster.

Contact person(s): Stephen Mitchell, Manager – Infrastructure Support

Corrective action planned: Implement disk-to-disk backup of servers to data storage devices (NAS) in addition to tape backup for both the central office and off-site DR location. Off-site DR plan will enable restoration to an operational state. The servers are projected to be obtained, setup/configured, and operational within 5 business days. Off-site DR location will also include a virtual server configuration to simulate and test the central office configuration and backups to ensure complete restore ability and expedite restoring to operational state within a virtual environment if needed. Testing scheduled to be performed quarterly.

Off-site DR location for servers and core network will be ABC Board Enforcement District 10 office located at Monticello Drive, Montgomery, Alabama. This is approximately 5 miles from the central office.

Replacement desktops, laptops, printers, etc. will be procured through emergency replacement order(s) to expedite shipping and receipt. Another option is possible loaner/donated equipment from other state agencies. Depending on the availability and ability to obtain these types of equipment, goal is to have 25-50% of such equipment restored and in-use within 10 business days post-DR incident.

Anticipated completion date: December 2008

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Department of Education
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 01-01-01 – Contingency Planning and Disaster Recovery

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning.

The Department of Finance has begun implementation of a comprehensive disaster recovery plan which includes an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the disaster recovery plan and they did not have stand-alone policies and procedures to be followed in the event of a disaster.

Contact person(s): Craig Pouncey

Corrective action planned: The State Department of Education is still in the process of developing policies and procedures for alternate backup processing facilities for applications and data. The Department has contacted Department of Finance, Information Services Division and plans to utilize their services. Additionally, the Department is formulating plans for staff to work at offsite locations in the event of a disaster.

Anticipated completion date: March 2009

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Department of Human Resources
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Human Resources has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 01-01-01 – Contingency Planning and Disaster Recovery

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has begun implementation of a comprehensive disaster recovery plan which includes an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have stand-alone policies and procedures to be followed in the event of a disaster.

Contact person(s): Nitin Rastogi

Corrective action planned: To our knowledge Finance Information Services Division (FISD) has not yet provided any processes or procedures for Disaster Recovery, a FISD responsibility under FISD Policy 700-00 released September 22, 2006, that other agencies need to follow in utilizing the Alabama Super Computer Authority alternate site in Huntsville.

DHR has requested FISD to begin the process of scheduling the tests at the alternate site, but have not had a response to date. Planning efforts are proceeding in regard to identification of systems and resources necessary for successful operation from the alternate processing site. When additional information is provided by FISD, DHR will finalize plans and proceed with testing and integrating procedures into the DHR business continuity plan.

Anticipated completion date: Not yet determined.

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Department of Mental Health and Mental Retardation
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Mental Health and Mental Retardation has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 01-01-01 – Contingency Planning and Disaster Recovery

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has begun implementation of a comprehensive disaster recovery plan which includes an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have stand-alone policies and procedures to be followed in the event of a disaster.

Contact person(s): Dan Evans

Corrective action planned: The DMH/MR plans to continue working with ISD and move as quickly as practical to take advantage of disaster recovery services as they become available.

Anticipated completion date: To be determined by the availability of the disaster recovery services from ISD.

Effective February 1, 2007, the Department of Mental Health and Mental Retardation (DMH/MR) has initiated a new client information/billing system for Mental Retardation state and federally funded community services. DMH/MR participates in an Advanced Disaster Recovery Services Plan for this client information/billing system. The primary service site for this service is in Andover Massachusetts. A completely replicated environment is in a remote data center located in California. Disaster recovery solutions will be delivered within 4 business hours of notification of failure. Substance Abuse services funded by the Substance Abuse Block Grant, Medicaid, and state funds will be added to this system beginning July 1, 2008.

Contact person(s): Gary Parker

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Department of Transportation
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(c), the Department of Transportation has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 01-01-05 – Physical Security

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that critical computer hardware and software were protected from unauthorized physical access. Although the Computer Services Bureau of the Department of Transportation implemented procedures to correct the previous finding to the extent possible, the Equipment Procurement and Services Bureau, which is responsible for the physical security of the central office building, did not have adequate policies and procedures in place for physical security over critical operations of the Department.

Contact person(s): Rodney Rives – IT Operations Manager

Corrective action planned: Presently, the Equipment Procurement and Services Bureau has implemented all necessary changes to policies and procedures to ensure physical security over critical operations of the Department.

Anticipated completion date: Completed

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Department of Transportation
For the Year Ended September 30, 2007

Finding 01-01-06 – Hiring, Training, and Personnel Policies

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that employees hired to work in sensitive areas (i.e., the information technology environment) had the proper education and training necessary to perform the required duties and that such employees indicated no evidence of prior actions that might have a negative impact on the required duties. The Department of Transportation did not obtain evidence that prospective employees to be hired for sensitive work had not been involved in prior criminal activity that might have a negative impact on the employee's ability to perform the required duties.

Contact person(s): Michael Stokes – Computer Services Bureau Chief

Corrective action planned: Computer Services, with assistance from ALDOT Legal Bureau will have criminal background checks performed through the Alabama Court System for all Computer Services' new hires.

Anticipated completion date: Completed

Auditee Responses/Corrective Action Plans
Section II – Financial Statement Findings (GAGAS)
Office of the State Treasurer
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Office of the State Treasurer has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 01-01-01 – Contingency Planning and Disaster Recovery

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has begun implementation of a comprehensive disaster recovery plan which includes an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have stand-alone policies and procedures to be followed in the event of a disaster.

Contact person(s): Daria Story, Assistant State Treasurer

Corrective action planned: The Office of State Treasurer signed an agreement with Finance ISD in August 2006, to “provide connection to the State network, active directory integration, email service, backup and restore Treasury data and applications.” We are dependent on Finance ISD to provide the alternate backup processing facility and recovery capabilities for the identified critical functions of Treasury. The agreement with Finance ISD states that “ISD maintains sufficient procedures and redundancy capabilities to assure normal processing.” We plan to initiate a separate agreement with Finance ISD detailing specific Treasury needs and priorities for business continuity, and to test connectivity to Finance ISD by October 2008.

Anticipated completion date: During 2007, the hardware and software applications of identified critical functions were migrated to Finance ISD. Treasury will have a detailed written Business Continuity of Operations plan by October 2008.

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Finance
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Finance has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 02-1-1

OMB Circular A-87, Appendix C, Subsection G.2, provides that an internal service fund may establish and maintain a reasonable level of working capital reserve in addition to the full recovery of costs. A working capital reserve as part of retained earnings of up to sixty days cash expenses for normal operating purposes is considered reasonable.

During our testing of the State of Alabama Statewide Cost Allocation Plan, Section II-Direct Billed Costs, it was determined that some Internal Service Funds continue to have working capital reserves in excess of a sixty-day reserve. Our analysis was made using financial statements for the fiscal year ended September 30, 2007. This is considered noncompliance with OMB Circular A-87, Appendix C, Subsection G.2.

The following internal service funds had reserves exceeding the sixty-day reserve: the Information Services Division Fund and the Service Division Funds (Motor Pool and Mail and Supply Room), all of which are administered by the Department of Finance.

Contact person(s): Marilyn Dozier
Jackie McCall

Corrective action planned: For the Information Services Division Fund, the Department of Finance has negotiated directly with the Department of Health and Human Services (DHHS). The negotiations for the 2003 fiscal year have been finalized with DHHS and the overpayment was satisfied as of September 2007. The Department is working with DHHS to resolve overcharges by fiscal year for 2004 and forward. The Department continues to analyze rates to reduce the amount due to DHHS for each subsequent fiscal year.

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Finance
For the Year Ended September 30, 2007

For the Motor Pool Fund, the Finance Department continues to be faced with increased costs of gasoline and other petroleum products. Motor Pool did not increase their rates to offset these rising costs during the reporting period. Working capital is also reduced with the purchase of additional fleet vehicles during fiscal year 2007. Most of the vehicles being purchased are alternative fuel vehicles. The Motor Pool is making capital investments to incorporate these energy saving enhancements into their operation.

For the Central Mail and Supply Fund, the Finance Department continues to upgrade its operation by modernizing mail and office equipment. By covering these additional expenditures, working capital is being reduced.

Anticipated completion date: July 31, 2010

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Alabama Medicaid Agency
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Alabama Medicaid Agency has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 02-2-1

The U. S. Department of Health and Human Services, Centers for Medicare and Medicaid Services notified the Alabama Medicaid Agency that approval of the State's Medicaid Waiver under Section 1915(b)(1) and (4) of the Social Security Act known as the Partnership Hospital Plan (PHP) would expire April 29, 2002. Thereafter, Alabama Medicaid operated the PHP program under the Alabama Medicaid Agency State Plan. Both the Waiver and State Plan provided for a capitation rate that was paid monthly for each Medicaid eligible, instead of payments to hospitals when services were received. Section AL-95-14 of the State Plan pertaining to the operation of the Partnership Hospital Plan provides for a specific methodology to calculate the capitation rates. It appears that the capitation rates paid after the Waiver ended were not computed in accordance with provisions of the State Plan, Section AL-95-14.

Contact Person(s): Terry G. Bryant, CFO/Deputy Commissioner Financial Management

Corrective action planned: State plan amendment 05-009 is awaiting approval from CMS which will eliminate the PHP program effective September 30, 2008.

Anticipated completion date: September 30, 2008

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Alabama Medicaid Agency
For the Year Ended September 30, 2007

Finding 07-2-1

As indicated in our Finding Number 02-02-1, Alabama Medicaid pays each of eight district Partnership Hospital Plans (PHPs) a capitation rate instead of using the method specified in its State Plan to calculate capitation payments. Essentially, this amount is equal to the number of Medicaid eligibles residing in the PHP's geographical area multiplied by a negotiated capitation rate. These negotiated rates are included in contracts between Medicaid and the PHPs. Medicaid used the negotiated contract rates for fiscal year 2006 to calculate the PHP payments from October 2006 through May 2007 of fiscal year 2007. In June 2007, a retroactive adjustment was made to compensate for the differences between the old and new negotiated rates. However, Medicaid negotiated a flat monthly payment in July 2007. Medicaid then used this to pay the PHPs in June 2007 when the contracts did not become effective until July 2007. Medicaid made payments to PHPs under the new contract from June to September 2007. Due to disputes with CMS over the flat monthly payments, Medicaid subsequently created a final contract for negotiated rates that were retroactive to October 1, 2006. This is a material weakness in internal controls and material noncompliance with the contracts and the State Plan. Questioned costs, if any, were not readily determinable.

Contact Person(s): Terry G. Bryant, CFO/Deputy Commissioner Financial Management

Corrective action planned: Medicaid will pay the PHPs a "per member", "per month" payment until the PHP program ends September 30, 2008.

Anticipated completion date: September 30, 2008

Finding 07-2-2

An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. While performing reconciliations between Medicaid's financial records and the PSC-272 reports, it was determined that the beginning cash balances were incorrect for the third and fourth quarter PSC-272 reports. The third quarter beginning cash balance was understated by \$10,968.74 and the fourth quarter beginning cash balance was overstated by \$43,644,246.82. This is a material weakness in internal controls and noncompliance with federal laws and regulations.

Contact Person(s): Karen Wainwright, Finance Director

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Alabama Medicaid Agency
For the Year Ended September 30, 2007

Corrective action planned: The Medicaid Agency Finance Director had been completing the PSC-272 report until the position became vacant in mid January 2007. Another recently employed individual resumed responsibility for the report without prior training. This employee continues to be responsible for the report and a new Finance Director was employed in mid June 2007 who is now responsible for checking the accuracy of this report.

Anticipated completion date: January 1, 2008

Finding 07-2-3

The Alabama Medicaid Agency received the Hurricane Katrina Stabilization Grant to further assist those individuals impacted by Hurricane Katrina. Medicaid received this grant in two parts. Part 1 of this grant stated that Medicaid must submit an annual (SF-269) Financial Status and Progress Report to CMS. Part 2 of this grant stated that Medicaid must submit quarterly (SF-269) Financial Status Reports to CMS. Medicaid did not submit an annual (SF-269) Financial Status Report nor did Medicaid submit an annual Progress Report to CMS as specified in Part 1 of the grant award. Also, Medicaid failed to submit a first, second, and third quarter (SF-269) Financial Status Report for Part 2 of the Katrina Stabilization Grant. This is noncompliance with the special Terms and Conditions of the grant award.

Contact Person(s): Terry G. Bryant, CFO/Deputy Commissioner Financial Management

Corrective action planned: The required financial reporting will be completed upon conclusion of the grant.

Anticipated completion date: September 30, 2008

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Economic and Community Affairs
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Economic and Community Affairs has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 06-3-1

According to OMB Circular A-133 Compliance Supplement, the pass-through entity is responsible for ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; issuing management decisions on audit findings within six months after receipt of the subrecipient's audit report; ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings; and ensuring that subrecipient noncompliance is properly reflected in the pass-through entity's records and reports.

During our review of 25 subrecipient audit files maintained in the Audit Division the following errors were noted:

The Alabama Department of Economic and Community Affairs' Audit Division enters all contracts for federal grant programs by fiscal year on a report (Audit Division's Due and Delinquent Report) to determine whether subrecipients received grants totaling \$500,000 or more and are required to have A-133 audits.

There was one instance where no contracts were entered for one subrecipient of CDBG program funds. Because of this omission, the Audit Division's Due and Delinquent Report did not reflect that the subrecipient was required to have an A-133 audit and no audit report was received.

There was one instance where a subrecipient of the LIHEAP program was listed on the Due and Delinquent Report, but had not submitted an audit report. We were told that the subrecipient had been given a verbal extension; however, there was no documentation of an extension in the audit file.

This is a significant deficiency in internal control and noncompliance with federal laws and regulations.

Contact person(s): Wendy S. Hester, CIA, Audit Manager

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Economic and Community Affairs
For the Year Ended September 30, 2007

Corrective action planned: In the future, all contracts for subrecipients will be entered on the Audit Management System and written documentation will be maintained for future extensions for the submission of audit reports.

Anticipated completion date: Ongoing

Finding 07-3-1

The OMB Circular A-133 Compliance Supplement states that a minimum of 95 percent of eligible participants in Youth Activities in the Workforce Investment Act (WIA) Program must meet the criteria of disadvantaged low-income youth. During our review of 40 WIA participants' files at the Alabama Department of Economic and Community Affairs, we noted one instance in which a file could not be located for a participant. We also discovered that this participant should not have been included as an active youth or in the Workforce Investment Act Title I-B Standardized Record Data (WIASRD) data because they had completed or were no longer receiving services from the program.

This is a significant deficiency in internal controls and noncompliance with federal laws and regulations.

Contact person(s): Ben Barnes

Corrective action planned: The participant record which could not be located originated at the Opelika CareerLink office in 2002. Since that time the office has relocated twice and has by necessity downsized its capacity to store participant records. Those older records would have been stored at a central warehouse operated by the Central Alabama Skills Training Consortium. In addition to an extensive search for the record at the CareerLink and at the warehouse, this office searched records held in our office as well as records which have subsequently been sent to State Archives. It can only be assumed that the participant record has been misfiled and/or destroyed. CareerLink staff has been reminded of the record retention requirement and every effort has been made to maintain an accurate and organized participant record filing system in this office.

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Economic and Community Affairs
For the Year Ended September 30, 2007

On March 15, 2007, an automated routine of exiting participants who have received no services for 90 days or more was implemented in the AlaWorks participant data system. That routine, which runs overnight each night, was developed in order to comply with the U. S. Department of Labor's (DOL's) "soft exit" policy. The DOL Training and Employment Guidance Letter 17-05 requires for participants who receive no services for 90 days to be exited effective the last date they received a service. Because this record was created when the AlaWorks system was still in the early stages of development, it contained incomplete information, causing it to be excluded from the soft exit routine, thereby causing the record to remain active beyond its actual date. This record was one of a number of records identified by the Examiner. Corrective action for all those records is discussed in further detail in our response to Finding 07-3-2.

Anticipated completion date: Completed

Finding 07-3-2

According to the Workforce Investment Act Title I-B Standardized Record Data (WIASRD) General Reporting Instructions and Specifications from the Employment and Training Administration, once a WIASRD file is submitted, updated records must be provided in each subsequent year until all relevant outcome information is completed. In other words, subsequent submissions are expected to occur for at least two full program years after the original submission.

The WIASRD data reports active youth and exiters (youth completing or leaving the program) during the applicable reporting period. During our review of 40 WIA youth participant files, we noted one participant in which an exit date was not listed in the WIASRD and the individual should have been exited prior to the Program Year (PY) 2006 WIASRD.

We reviewed the WIASRD data for five additional participants in which an exit date was not listed. Four out of the five participants completed their last service or attained a youth goal before the reporting period for the PY06 WIASRD.

These participants should not have been included in the PY06 WIASRD since they completed their last service or attained a youth goal prior to the reporting period. There were also many other instances in which an exit date was not listed for participants.

Therefore, it appears that the number of youth participants included in the PY06 WIASRD has been overstated.

This is a significant deficiency in internal controls and noncompliance with federal laws and regulations.

Contact person(s): Ben Barnes

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Economic and Community Affairs
For the Year Ended September 30, 2007

Corrective action planned: As mentioned in the previous finding, on March 15, 2007, an automated routine of exiting participants who have received no services for 90 days or more was implemented in the AlaWorks participant data system. That routine, which runs overnight each night, was developed in order to comply with the U. S. Department of Labor's (DOL's) "soft exit" policy. The DOL Training and Employment Guidance Letter 17-05 requires for participants who receive no services for 90 days to be exited effective the last date they received a service. The TEGL states, in part, *"Once a participant has not received any services funded by the program or a partner program for 90 consecutive calendar days, has no gap in service, and is not scheduled for future services, the date of exit is applied retroactively to the last day on which the individual received a service funded by the program or a partner program."*

Two conditions existed that caused the overstatement of active youth in the PY06 WIASRD:

1. Prior to March 15, 2007, there were no controls in place to ensure that participants were exited according to this policy. Unfortunately, participant records remained active indefinitely. When the logic was developed to implement this automated exit routine, it did not take into account the fact that certain data fields within a participant record may be left blank. Some of these fields were the reported ending date for a variety of services and activities. Consequently, those records were excluded from the soft exit routine and appeared to remain active.
2. Until PY06, only records for exited individuals were included in the WIASRD. On November 1, 2007, we were notified via email from Brad Sickles, DOL Region 3 Performance Specialist, that we must also include all active youth. One of the issues identified by DOL stated, *"No older or younger youth who were continuing participants were included in the file. These records are need [sic] for the goal attainment rate and literacy/numeracy measures and are now required."* We were given a November 14, 2007, deadline for resubmission of the WIASRD. When the WIASRD was resubmitted, it included those records mentioned in item #1 above which should have been exited prior to the WIASRD reporting dates.

We are reviewing all youth participant records that were inaccurately included in the PY06 WIASRD. We have received instructions from U. S. DOL Reporting staff that the PY06 WIASRD is "locked down and the analysis is complete." We have been instructed to send a corrected WIASRD file directly to Rich West at Social Policy Research Associates along with an explanation of the corrections so that he has the most current data. We have implemented a number of AlaWorks system edits which will eliminate the posting of illogical data and will provide warning messages regarding incomplete data. We are also refining our soft exit program so that those records with incomplete data will be included in that nightly routine and participant records will be closed according to DOL's policy.

Anticipated completion date: June 20, 2008

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Education
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 07-4-1 – Title II, Part A - Improving Teacher Quality State Grants

According to 20 USC 6622 (c)(2), to be eligible to receive a subgrant of Title II, Part A funds, a Local Educational Agency (LEA) must conduct an assessment of local needs for professional development and hiring, as identified by the LEA and school staff. The needs assessment must be conducted with the involvement of teachers, including teachers who work in Title I, Part A targeted assistance programs and school-wide program schools.

During testing of 20 LEAs selected for review, the Comprehensive Monitoring Reviews (CSMRs) for those LEAs were obtained and reviewed. It was noted that the Department of Education's monitoring process for fiscal year 2006-2007 was revised and no longer included procedures to determine whether a needs assessment was conducted and whether Title I, Part A teachers from targeted assistance or school-wide program schools participated in the needs assessment. Therefore, the LEA Comprehensive Professional Development Plans were obtained from department personnel to verify the LEAs compliance with the requirement. Based on our review of the Plans, it was determined that the needs assessments were conducted by the LEAs. However, it was not determinable if Title I, Part A teachers from targeted assistance and school-wide programs schools participated in the needs assessment. This is a significant deficiency in internal control and noncompliance with federal laws and regulations.

Contact person(s): Edmund Moore

Corrective action planned: The Department of Education will verify the involvement of teachers, including teachers in Part A Title I Schools in the LEA Professional Development Plan. The verification will be on site through Compliance Assistance.

Anticipated completion date: Already Implemented

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Education
For the Year Ended September 30, 2007

Finding 07-4-2 – Migrant Education

An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. The Migrant Education program requires the Department of Education to submit the Consolidated State Performance Report, Part II which includes population and program performance data for migrant children. The totals for the key line items reported in the Consolidated State Performance Report, were not verifiable because the Department of Education did not maintain the appropriate supporting documentation. This is a significant deficiency in internal controls.

Contact person(s): Dell McLendon

Corrective action planned: The Department of Education has developed procedures to maintain the appropriate supporting documentation to support the data included in the Department of Education's Consolidated State Performance Report.

Anticipated completion date: Already Implemented

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Emergency Management Agency
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Emergency Management Agency has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 07-5-1

The Davis-Bacon Act (40 U.S.C. 276a to a-7) as supplemented by U. S. Department of Labor Regulations (29 CFR Part 5) requires that non-federal entities include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations 29 CFR Part 5. This includes a requirement for the contractor to maintain payrolls and basic records related to the payrolls during the course of the work and for a period of three years thereafter for all laborers and mechanics working at the site of the work. These records are to contain the name, address and social security number of each worker, his or her classification, hourly rates of wages paid, daily and weekly number of hours worked, deductions made and actual wages paid. Additionally the CFR requires the contractor to submit a copy of all payrolls to the Alabama Emergency Management Agency weekly for each week in which any contract work is done. These payrolls must contain all the information mentioned above. The contractor must attach a "Statement of Compliance" to the payrolls, signed by him/her or their agent who pays or supervises the employees. This statement certifies that the payroll contains the required information.

The construction contract tested at the Alabama Emergency Management Agency did not contain the requirements that the contract or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations contained within 29 CFR Part 5. This is a material weakness in internal control and noncompliance with the requirements of the Davis-Bacon Act.

Contact person(s): James Lee

Corrective action planned: The Alabama Emergency Management Agency will take action to increase awareness throughout the agency of the Davis-Bacon Act and its requirements. As any future construction projects arise, the agency will work with the Alabama Building Commission, federal grantors, and others as applicable to consider the Davis-Bacon Act at the beginning of the project.

Anticipated completion date: June 30, 2008

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Mental Health and Mental Retardation
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Mental Health and Mental Retardation has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 07-8-1

According to the OMB Circular A-133, Section __.320 (a), audits should be completed and received within the earlier of thirty days after the receipt of the audit report, or nine months after the end of the audit period; unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide.

An adequate system of internal controls should ensure that the **required** audit reports are submitted **before the nine month deadline**. During the review of 18 required A-133 audit reports from subrecipients of the Alabama Department of Mental Health and Mental Retardation (DMH/MR), the following were noted:

One subrecipient submitted a fiscal year 2005 audit report instead of the required fiscal year 2006 audit report; this was not detected by DMH/MR. The fiscal year 2006 audit report has still not been submitted.

Three subrecipients submitted their audit reports after the nine month due date, ranging from twenty-three days late to five months late. DMH/MR only attempted to notify one of these subrecipients of its noncompliance by sending a reminder letter.

Their established systems of internal controls were compromised by lack of reviews of whether audits were received or not, and failure to follow up with subrecipients. This is considered a significant deficiency in internal controls.

Contact person(s): Catheryn B. Townsend

Corrective action planned: The Contracts Office will implement procedures to notify all subrecipients that audits should be received within thirty days after receipt of audit report, or nine months after the end of the audit period.

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Mental Health and Mental Retardation
For the Year Ended September 30, 2007

The procedure is as follows:

1. In January of each year a print out of all prior year contracts will be requested from Data Management.
2. The Contracts Office will highlight each subrecipient who is required to submit an audit.
3. A date will be entered beside the subrecipient's name as each audit is received.
4. A reminder will be mailed to each subrecipient who has not submitted an audit by the due date.
5. A letter will be mailed to each subrecipient requesting an audit within two weeks after the due date.
6. A spread sheet will be maintained by the Contracts Office with the due date of each subrecipients audit, the date the audit was received in the Contracts Office, and the dates of contact if the audit is not received.
7. If no audit is received in the Contracts Office by the third request, a letter will be presented to the Commissioner of Mental Health to instate sanctions up to and including withholding of funds as outlined in the Audit Guidelines of Department of Mental Health/Mental Retardation.

Anticipated completion date: July 14, 2008

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Human Resources
For the Year Ended September 30, 2007

As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section __.315(c), the Department of Human Resources has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 05-6-3

45CFR265.7 requires each State's quarterly TANF Data Report (ACF-199) be complete and accurate. This means that the reported data accurately reflect the information available to the State in the case records, financial records, and automated data systems. The data should be free from computational errors and are internally consistent. The State should report data on all required elements for all families. These reports are used to determine if the State has met or exceeded their annual work participation rate standards. Failure to do so could mean a penalty of up to 21% of the grant funds. We compared the data included in the ACF-199 Report to the client files for the key lines items as stated in the March 2007 Compliance Supplement for this report.

In order to test the completeness and accuracy of the ACF-199 Report, we traced the information from the ACF-199 Report to the case files that are maintained at the county level. During our testing of the ACF-199 Report, we noted the following errors.

There was one instance noted at both the Montgomery County Department of Human Resources and the Mobile County Department of Human Resources where a client did not have their required elements included on the ACF-199 for the month of March 2007.

We noted 16 instances, where the ACF-199 Report indicated a different number of months counting towards the federal benefit time limit (a key line item) than what the Department of Human Resources case file or automated data system actually indicated. In each instance, it appears that the ACF-199 Report reflected an additional month of benefits had been received by the client.

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Human Resources
For the Year Ended September 30, 2007

We noted three cases at the Macon County Department of Human Resources where the ACF-199 Report indicated either the work participation status, work participation activity, work-eligible individual indicator, family affiliation code, or the federal time limit provisions code was not accurate. Two of the cases resulted in multiple errors.

This is noncompliance with federal laws and regulations and a significant deficiency in internal controls.

Contact person(s): Melody Armstrong/Avis Hunter

Corrective action planned: Item 1. Required elements. Disagree. The TANF data report transmit file for March 2007 does contain case, family, and child records for both cases.

Item 2. Time limits. Agree. Additional programming was required to modify and further refine of the criteria used to determine the number of months counted toward the federal time limit.

Item 3. Inaccurate coding. Agree. Two of these errors are attributable to worker error/oversight and are considered isolated in nature. One error was attributable to the need for programming to correct an issue with the calculation of type of family which affects the setting of the federal time limit exemption code.

Anticipated completion date: Item 1 - Not applicable; Item 2 - December 2007; Item 3 - December 2007

Finding 05-6-6

To ensure that the State operates its Food Stamp Program in compliance with the law, program regulations and the State agency's plan of operation, the State is required to have a system for monitoring and improving the administration of the program (7CFR275.1), particularly the accuracy of eligibility and benefit determinations. Accuracy involves not only the correct determinations of eligibility and benefit amounts, but also, maintaining accurate information on those who apply for benefits.

Auditee Responses/Corrective Action Plans
Section III – Federal Awards Findings and Questioned Costs
Department of Human Resources
For the Year Ended September 30, 2007

We tested 60 food stamp case files for compliance with federal program requirements relating to the Food Stamp program. During our testing, we noted one case where it appears the Department did not appear to be complying with the requirement to accurately and completely process and store all case file information for eligibility determination and benefit calculation. The error appeared to be an oversight and it resulted in an overpayment. The following discrepancy was noted during our testing.

During our testing of the food stamp files at the Mobile County Department of Human Resources, we noted one instance where the Department calculated the monthly benefit amount using the client's annual medical expense instead of the monthly medical expense. Therefore, the client received more monthly benefits than they were entitled to.

This error resulted in a known questioned cost of \$97.00 for the test month, and a likely (projected) questioned cost of \$166,769.47 for the test month.

In addition there was \$970.00 in questioned cost for preceding and subsequent months related to the tested case file.

This is noncompliance with federal laws and regulations and a significant deficiency in internal controls. Total questioned cost is \$1,067.00.

Contact person(s): Patricia Huffman

Corrective action planned: Training on the averaging of medical expenses will be held on Thursday, June 26. The effectiveness of the training will be monitored through regular case reviews and through Mobile County's Management Evaluation results for this element. Mobile is scheduled for an ME Review in August.

Anticipated completion date: August 22, 2008

Finding 07-6-1

The Department of Human Resources administers the Temporary Assistance for Needy Families (TANF) and Social Services Block Grant (SSBG) programs. OMB Circular A-133 requires that non-federal entities that expend \$500,000 or more in a year in federal awards have a single audit conducted for that year. Also, the contracts between the Department of Human Resources and the subrecipients contain a clause that require an audit report be submitted to the Department of Human Resources, Office of Audit, no later than June 30th following the fiscal year for which the subrecipient's audit was conducted.

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During our examination, we requested all four audit reports for the subrecipients that received Federal TANF and SSBG disaster funds. We noted two instances where the Department did not have an audit report on file for the subrecipients 2006 fiscal year. These reports should have been received by June 30, 2007, but were not. This is considered to be noncompliance with Federal Rules and Regulations. Also, it is a material weakness in Internal Controls.

Contact person(s): Steve Burden

Corrective action planned: Although this audit requirement is already a part of the contract, we routinely start contacting the affected contractors around March and thereafter who have not submitted their audit report and to remind them of the June 30 deadline. The SSBG audit report that was not received by June 30, 2007 was not received on time because the contractor was installing a new computer system, which was not completed until late 2007. The two instances cited, Volunteer Mobile and United Way of Alabama, represent disaster funds contracts that we anticipate will terminate this year; therefore, this finding will not be an issue for those particular contracts in the future. The Department expects to meet the June 30 deadline for applicable audit reports due next year. We will send a memo to all affected contractors informing them that it is mandatory that they submit audit reports by June 30 each year, or be sanctioned by the Department.

Anticipated completion date: June 30, 2008

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As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section __.315(c), the Department of Public Health has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007.

Corrective Action Plan Details

Finding 97-9-8

The Department of Public Health utilizes the central data processing facilities maintained by the State of Alabama Department of Finance to process data and interface with the central accounting system of the State of Alabama. An examination and review was performed of both manual and automated controls intended to ensure that data processed by the system is accurate, complete, and authorized. A finding and recommendation relating to electronic data processing is summarized below. For security reasons, a more detailed report was made available to the Alabama Department of Public Health in a separate document.

The Alabama Department of Public Health has developed a formal contingency plan that includes policies and procedures to be followed in the event of a disaster that adversely affects the operations of its data processing. Applications essential for accounting for federal programs reside on the Finance Department Information Systems Division (ISD) mainframe computer. The Department does not have a contingency plan for mainframe applications in case the ISD mainframe becomes unavailable. ISD has established an alternate processing facility which is located at the Alabama Supercomputer Authority in Huntsville, Alabama. ISD plans to make this facility available to state agencies and departments to use as a back-up recovery facility. The agencies will have the responsibility of storing back-up files in a compatible format. Agencies will be phased in as resources become available. It is expected that the Supercomputer processing site will eventually resolve this finding. However, at this time the finding is not resolved. This remains a significant deficiency in internal controls.

Contact person(s): John Heitman

Corrective action planned: As stated before, the Department of Public Health has neither the authority nor ability to contract for an alternate processing facility. That ability rests solely with the Department of Finance Information Services Division (ISD). (ISD), in cooperation with the Alabama Department of Transportation, has established and tested an alternate processing facility located in Huntsville, Alabama at the Alabama Supercomputer Authority (ASA) installation successfully in July 2007.

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We have met with ISD and learned that they back-up our AFNS, SNAP, GHRS and other tables/applications needed for Disaster Recovery. We are now working with ISD to schedule a test for verification and accessibility of the alternate testing facility.

Anticipated completion date: July 2008

Finding 07-9-1

According to the OMB Circular A-133 Compliance Supplement, the pass-through entity is responsible for ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, issuing management decisions on audit findings within 6 months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

The Alabama Department of Public Health's Center for Emergency Preparedness lacked adequate controls to ensure that subrecipients met the audit requirements of OMB Circular A-133.

Sufficient controls should be in place to ensure that subrecipients receive the required audits and to ensure that subrecipient audits are received and reviewed in a timely manner.

In addition, OMB Circular A-133 requires some form of monitoring of entities not required to have audits to ensure that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.

The Center for Emergency Preparedness did not have a monitoring system in place to determine whether the required audits were received and did not maintain adequate documentation of other monitoring activities.

This is a significant deficiency in internal controls over subrecipient monitoring and noncompliance with federal laws and regulations.

Contact person(s): Andy Mullins

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Corrective action planned: Public Health Finance will generate a yearly report that totals federal funding by vendor to identify subrecipients who have exceeded the single audit threshold through multiple funding sources. All subrecipients identified through this process will be reminded that they are required to send a copy of their federal single audit to Public Health. A contract manager in the Center for Emergency Preparedness has been assigned to follow-up and make sure that all audits are received and forwarded to the Office of Program Integrity for review.

The Center for Emergency Preparedness is developing a Subrecipient monitoring checklist that is completed after contracts are finalized. Program personnel are responsible for performing the tasks on the checklist and maintaining documentation for review by the contract manager.

Anticipated completion date: October 1, 2008

Finding 07-9-2

OMB Circular A-87, Attachment B, Selected Items of Cost, requires that personnel activity reports (time sheets) reflect an after-the-fact distribution of the actual activity of each employee and account for the total activity for which each employee is compensated.

Out of 53 time sheets tested, we noted eight timesheets where employees either charged time to the incorrect cost center or failed to record on their timesheets all activity for which they were compensated. Employees or their designees enter their time in the E-CATS system (Electronic Cost Accounting Time Sheet system). Not all employees have access to a computer and, therefore, designees are named to enter in time for some employees. Based on the tests performed, it does not appear that adequate controls were in place to detect such errors on the timesheets. These errors were not corrected by Public Health until after we informed Public Health of them. The corrections to the timesheets were not made until after the related salary and benefits costs were already distributed and, therefore, some costs may have been distributed incorrectly. This is a significant deficiency in internal controls and noncompliance with federal laws and regulations.

Contact person(s): Robert Brantley

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Corrective action planned: These issues will be addressed through modification of our automated cost accounting timesheet system. When productive time is coded on a state holiday, a “pop-up” will remind the employee that the day is a holiday. The pop-up can be over ridden if the employee did in fact work on the holiday. Also, we will provide additional training to employees on completing timesheets with an emphasis on identifying days when less than 8 hours are coded.

Anticipated completion date: October 1, 2008